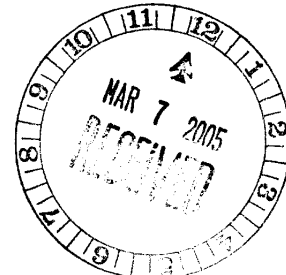


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ASSOCIATION
OF AMERICAN
RAILROADS

Craig F. Rockey
Vice President - Policy & Economics



March 7, 2005

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board, Room 711
1925 K Street, N.W.
Washington, DC 20423-0001

ENTERED
Office of Proceedings

MAR 07 2005

Part of
Public Record

Dear Mr. Williams:

This submission is the AAR forecast of the second quarter 2005 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2005-2), *Quarterly Rail Cost Adjustment Factor*. The versions of RCAF-related indices covered in this filing are: the All-Inclusive Index (initiated in the second quarter 1985), the Unadjusted RCAF (produced since October 1982), the Adjusted RCAF (first published in the second quarter of 1989), and the RCAF-5 (created by the STB in its Ex Parte No. 290 (Sub-No. 7) decision served October 3, 1996). The table below summarizes the second quarter 2005 results on the fourth quarter 2002 base, and shows the percentage changes from the previous quarter.

	<u>2005Q1</u>	<u>2005Q2</u>	<u>% Change</u>
All-Inclusive Index	109.7	111.9	2.0
Preliminary RCAF	1.097	1.119	2.0
Forecast Error Adjustment	0.010	0.030	
RCAF (Unadjusted)	1.107	1.149	3.8
Productivity Adjustment Factor	2.0274	2.0420	
RCAF (Adjusted)	0.546	0.563	3.1
PAF-5	2.1263	2.1380	
RCAF-5	0.521	0.537	3.1

Page 2
March 7, 2005

In its October 3, 1996 decision in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation*, the STB noted its intent to publish, in addition to the RCAF (Unadjusted) and RCAF (Adjusted), an RCAF-5 (i.e., a calculation of the productivity adjusted RCAF values as if the agency had always used a 5-year rolling average to calculate the productivity adjustment). In response to a request by STB staff, the AAR is including a calculation of the RCAF-5 in its quarterly RCAF filing. The AAR and its members, however, do not believe the publication of a third RCAF index is required or permitted by the applicable statute (49 U.S.C. § 10708) and do not endorse its publication.

Two copies of the quarterly non-proprietary workpapers underlying this submission are filed herewith, in accordance with the ICC's order in Ex Parte No. 290 (Sub-No. 2), *Railroad Cost Recovery Procedures*, served February 8, 1990. A third copy of the working papers has been delivered to Jeff Warren in the STB office handling this proceeding. All workpapers are available for STB inspection. Questions should be directed to me or Clyde Crimmel (202 639-2309) of this office.

Sincerely,

A handwritten signature in cursive script that reads "Craig F. Rockey". The signature is written in dark ink and is positioned above the printed name.

Craig F. Rockey

Attachments

**Second Quarter 2005
All-Inclusive Index**

Ex Parte No. 290 (Sub-No. 5) (2005-2)

**Quarterly Rail Cost Adjustment Factor
Surface Transportation Board**

**Policy and Economics Department
Association of American Railroads**

March 7, 2005

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Introduction

On January 2, 1985, the Interstate Commerce Commission (ICC) [now the Surface Transportation Board (STB)] adopted the All-Inclusive Index of Railroad costs as the basis for the Rail Cost Adjustment Factor (RCAF). The quarterly projection of railroad costs, as documented herein, employs the All-Inclusive Index as required by the regulations. Also presented in this submission is the RCAF, both Adjusted and Unadjusted, as required by the ICC in its decision in Ex Parte No. 290 (Sub-No. 4), *Rail Cost Recovery Procedures - Productivity Adjustment*, served March 24, 1989. In addition, the AAR has included (but does not endorse) the RCAF-5, which was instituted by an STB decision served October 3, 1996 in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation*. This quarter's projection of railroad costs is for the second quarter of 2005.

Index Weights

In the Ex Parte No. 290 (Sub-No. 2) final rules, issued in April 1981, the Interstate Commerce Commission mandated that the weights of each major cost component be updated annually. These "external" weights are calculated using data from Schedules 410 and 210 of the R-1 annual report filed with the Surface Transportation Board by the Class I railroads. The weights are typically updated with the fourth quarter projection.

The previous (2002) weights were used for the fourth quarter of 2003 through the third quarter of 2004. Beginning with the fourth quarter of 2004, the 2003 weights are used. The biggest change in the weights was for Fuel, which increased by 1.6 percentage points, close to its weight based on 2001 data. The Other component increased again, this time by 0.7 percentage points. The remaining changes were decreases of less than one percentage point. The 2003 (current) and 2002 (previous) weights are shown below.

RCAF Weights		
	Previous 2002	Current 2003
Labor	38.0 %	37.5 %
Fuel	9.0	10.6
Materials & Supplies	4.6	4.4
Equipment Rents	10.3	9.4
Depreciation	10.9	10.7
Interest	3.7	3.2
Other	23.5	24.2

Reweightings of the index is accomplished by calculating both the current quarter (normally the fourth) and prior (normally the third) quarter indexes with the new weights. The relative change between the two quarters is then multiplied times the prior quarter (usually the third) *linked* index. Use of this method ensures that the weight change, by itself, does not cause a change in the level of the All-Inclusive Index.

Internal weights in the labor and equipment rents components are updated at the same time as the external weights. When these weights are changed, they are also linked using the procedure described above in order to eliminate the effect of the change in weighting.

All-Inclusive Index Second Quarter 2005

The components and values of the current and previous All-Inclusive Indexes are shown below. Details of the construction of each component of the index are contained in the Appendices.

	2003 Weights	Forecast		Percent Change
		Previous 2005Q1	Current 2005Q2	
1. Labor	37.5%	290.3	289.5	-0.3 %
2. Fuel	10.6%	171.5	186.9	9.0
3. M&S	4.4%	165.2	176.4	6.8
4. Equipment Rents	9.4%	179.9	182.4	1.4
5. Depreciation	10.7%	161.3	176.3	9.3
6. Interest	3.2%	90.2	90.2	0.0
7. Other	24.2%	176.3	178.9	1.5
8. Weighted Average				
a. 1980 = 100		214.0	218.3	
b. 1980 = 100 (linked)		210.7	214.9 ¹	
c. 4Q02 = 100		109.7	111.9 ²	2.0

¹ To calculate the 1980 = 100 Linked Index:

$$\begin{aligned} \text{Index}_{80} &= (\text{Current Index} / \text{Previous Index}) * \text{the Previous Quarter Linked Index} \\ &= 218.3 \quad \text{divided by} \quad 214.0 \quad \text{times} \quad 210.7 \\ &= 214.9 \end{aligned}$$

² To calculate the 4Q02 = 100 index:

$$\begin{aligned} \text{Index}_{4Q02} &= (\text{Current Linked Index} / 4Q02 \text{ Linking Factor}) * 100 \\ &= 214.9 \quad \text{divided by} \quad 192.1 \quad \text{times} \quad 100 \\ &= 111.9 \end{aligned}$$

4Q97 based index = 124.1
4Q92 based index = 137.0
4Q87 based index = 162.6

Forecast vs. Actual All-Inclusive Index Fourth Quarter 2004

As shown below, the fourth quarter actual index of 110.5 is 3.0 index points above the forecast value of 107.5. Therefore, the forecast error adjustment for the second quarter 2005 is 3.0 index points. October fuel prices, which were much higher than expected, caused most of the forecast error.

	2003 Weights	Fourth Quarter 2004		Amt Difference
		Forecast	Actual	
1. Labor	37.5%	286.8	286.8	
2. Fuel	10.6%	148.3	189.7	
3. M&S	4.4%	169.7	169.7	
4. Equipment Rents ¹	9.4%	178.3	178.9	
5. Depreciation	10.7%	162.4	162.7	
6. Interest	3.2%	90.2	90.2	
7. Other	24.2%	173.3	173.7	
8. Weighted Average				
a. 1980 = 100		209.7	214.3	
b. 1980 = 100 (linked)		206.5	212.2 ²	
c. 4Q02 = 100 ³		107.5	110.5	3.0

Forecast error —————> **3.0 index points**

	2003 Weights	Fourth Quarter 2004	
		Forecast	Actual
Car-Hire	50.1%	172.5	172.6
Lease Rentals	49.9%	173.3	173.7
Weighted Average		172.9	173.1
Weighted Average (linked)		178.3	178.9

² Linked actual index = (actual index / previous actual index) x previous linked actual index.

$$212.2 = 214.3 / 206.5 \times 204.5$$

Note: the previous actual index has been recalculated using 2003 weights.

³ The 4Q02 based indexes are 1980 based indexes divided by the 4Q02 linking factor (192.1/100).
 4Q97 based indexes are the 1980 based indexes divided by the 4Q97 linking factor (173.2/100).
 4Q92 based indexes are the 1980 based indexes divided by the 4Q92 linking factor (156.9/100).

Productivity

On February 18, 2005, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub No. 4) which added the year 2003 to the Productivity Adjustment Factor (PAF) and deleted the year 1998. This creates an average annual productivity for 1999 through 2003 of 2.9 percent – an increase from the 1998 through 2002 average of 2.2 percent. The components of this average annual value are shown on the following table. Productivity changes are calculated by dividing the output index by the input index. The average annual rate is calculated by multiplying each of the five productivity changes together and taking the result to the one fifth power. The quarterly productivity adjustment factors (PAF) are calculated by increasing the previous quarter's PAF by quarterly versions of the annual rate which are the fourth root of the average annual growth rate. The difference between the PAF and the PAF-5 is the timing of the 5-year productivity trend.

Comparison of Output, Input, & Productivity 1999 - 2003			
Year	Output Index (1)	Input Index (2)	Productivity ¹ Changes (3)
1999	1.032	1.008	1.024
2000	1.029	0.953	1.079
2001	0.971	0.955	1.016
2002	1.012	1.006	1.006
2003	1.039	1.020	1.019
Average			1.029
Previous Average (1998-2002)			1.022

¹ The values shown in Column 3 are based on full float calculations and may not exactly match numbers calculated using the rounded numbers displayed in Columns 1 and 2.

Calculation of PAF and PAF-5				
For 1999-2003 use fourth root of avg. productivity change			1.0072	
For 1998-2002 use fourth root of previous avg. change			1.0055	
Quarter	Year	PAF	PAF-5	
Q1	2005	2.0274	2.1263	1998-2002
Q2	2005	2.0420	2.1380	
Q3	2005	2.0567	2.1498	1999-2003
Q4	2005	2.0715	2.1616	
Q1	2006	2.0864	2.1772	

Rail Cost Adjustment Factor

Second Quarter 2005

Four RCAF values are presented in this filing. Two of the indexes, the All-Inclusive Index and the Unadjusted RCAF, are not modified for productivity, while the Adjusted RCAF and the RCAF-5 incorporate a productivity calculation. The All-Inclusive Index and all four RCAF values, plus the percent change for each, are shown below.

	Previous 2005Q1	Current 2005Q2	Percent Change
All-Inclusive Index ¹	109.7	111.9	2.0
Preliminary RCAF ²	1.097	1.119	2.0
Forecast Error Adjustment ³	0.010	0.030	
RCAF (Unadjusted) ⁴	1.107	1.149	3.8
Productivity Adjustment Factor ⁵	2.0274	2.0420	
RCAF (Adjusted) ⁶	0.546	0.563	3.1
PAF-5 ⁷	2.1263	2.1380	
RCAF-5 ⁸	0.521	0.537	3.1

¹ See All-Inclusive Index on page 3.

² All-Inclusive Index divided by the All-Inclusive Index in the base period (100.0).

³ The current figure is from Forecast vs. Actual All-Inclusive Index in this filing (page 4). The previous quarter figure is shown in a similar section of the previous quarter's filing.

⁴ Preliminary RCAF plus the forecast error adjustment.

⁵ See Productivity on page 5.

⁶ RCAF (Unadjusted) divided by the Productivity Adjustment Factor (PAF).

⁷ See Productivity on page 5.

⁸ RCAF (Unadjusted) divided by the PAF-5.

Appendixes

Labor

Second Quarter 2005

The second quarter 2005 Labor Index is forecast to decrease 0.3 percent from the previous period. The decrease was caused mostly by the complete amortization and removal of lump sum and back pay amounts relating to the Brotherhood of Locomotive Engineers and Trainmen national agreement signed in late 2003. Standard RCAF procedure is to amortize lump sums (and back pay) over four quarters. Table A-1 on page three of this appendix lists the hourly rates for wages and supplements used to calculate the Labor Index. Appendix H lists the abbreviations for railroads and unions used in the text below.

Wage Index

The Wage Index is forecast to decrease 0.7 percent. Significant factors in the decrease were the previously mentioned decreases in the lump sum and back pay hourly rates.

Wage Increases: There are no wage increases scheduled in national or independent contracts for the second quarter. However, one new independent contract for Union Pacific's yardmasters was added to the index, causing the increase of 1.1 cents.

Lump Sums: Most of the decrease in the lump sum rate was caused by the complete amortization and removal of an amount pertaining to signing bonuses and longevity bonuses that were part of the new national BLET contract signed in late 2003. A Norfolk Southern signing bonus amount relating to its new BLET contract (signed in late 2003) was also fully amortized and removed, but a similar-sized amount was added for the annual Norfolk Southern BLET Thoroughbred Performance Bonus (Article I Section 1 of contract) paid in early 2005.

Back Pay: The decrease in the back pay rate was caused by the complete amortization and removal of back pay resulting from the national BLET contract signed in late 2003.

Other: This component contains the amortization of a profit sharing payment that the BNSF made to its dispatchers, yardmasters, and the former ATSF portion of its locomotive engineers. This component was unchanged from the prior quarter.

Supplements Index

The Supplements Index is forecast to increase 0.4 percent from the first quarter filing. Most of this increase was the result of an employer contribution to an employee stock ownership plan.

Labor

Second Quarter 2005

Health & Welfare: The Health & Welfare hourly rate decreased by 0.1 percent from the first quarter level. The small change was caused by the addition of an independent labor agreement for UP's yardmasters that instituted employee health & welfare cost sharing.

Railroad Retirement: The Railroad Retirement and Medicare hourly rate decreased slightly because of lower taxable wages.

Unemployment Insurance: The Unemployment Insurance rate was unchanged for the second quarter.

Other: The "Other" category is a reflection of all other fringe benefits, and currently contains employer contributions to employee 401(k) accounts and employee stock ownership plans. The increase of 8.1 cents per hour was caused by one railroad's contribution to an employee stock ownership plan.

Labor Index Calculation

As shown in table A-1 on the next page, the 0.7 percent decrease in the Wage Index and the 0.4 percent increase in the Supplements Index had a combined effect of a 0.3 percent decrease in the Labor Index. The linked second quarter 2005 index is 289.5.

Labor
Second Quarter 2005

Table A-1 Labor Index

	2005Q1	2005Q2	Change	
			Percent	Amount
<u>Base Wage</u> – Straight Time & Pay For Time Not Worked	\$29.231	\$29.242	0.0%	\$0.011
Adjustments:				
Lump Sum	0.239	0.140	-41.4%	-0.099
Back Pay	0.215	0.091	-57.7%	-0.124
Other	0.014	0.014	0.0%	0.000
Total Wages	<u>29.699</u>	<u>29.487</u>	-0.7%	-0.212
Health & Welfare Benefits	5.120	5.116	-0.1%	-0.004
RR Retirement & Medicare	6.129	6.097	-0.5%	-0.032
Unemployment Insurance	0.164	0.164	0.0%	0.000
Other	0.022	0.103	368.2%	0.081
Total Supplements	<u>\$11.435</u>	<u>\$11.480</u>	0.4%	0.045
Total Labor	\$41.134	\$40.967		
Wage Index¹	254.2	252.3	-0.7%	
Supplements Index²	422.6	424.2	0.4%	
Total labor Index, 2003 Weights ³	303.5	302.7		
Labor Index (linked)⁴	290.3	289.5	-0.3%	

¹ 1980 wage rate \$11.685

² 1980 supplements rate \$2.706

³ 2003 weights: wages, supplements 70.7% 29.3%

⁴ 2005Q2 linked Index = 2005Q1 _{linked} x (2005Q2 / 2005Q1)
= 290.3 x 302.7 / 303.5

Fuel

Second Quarter 2005

The forecast for fuel is based on: (1) a survey of railroad fuel purchasing officers concerning current price and volume levels, (2) expectations of railroad purchasing officers based on their own forecast models and discussions with their major suppliers, and (3) a consensus of petroleum industry experts and general business publications.

In general, world crude oil* prices have been high because of strong demand and concern about supply. Crude oil prices peaked at record-breaking levels above \$55 per barrel in October, and then declined into December – averaging in the low \$40s for the month. Since that time, crude oil prices have been trending upward again – almost reaching \$54 per barrel by March 3.

Railroad monthly fuel prices also set records in October, and then declined into January. Recently, the market for distillate** fuels has faced more supply and demand pressures than the market for gasoline. Heating oil prices rose sharply during the last half of February. Futures prices for April delivery of heating oil rose by over 10 percent during that period. The railroads believe that their second quarter 2005 (April) fuel prices will be 15.5 percent above the prices they paid in January, and 9.0 percent higher than the first quarter forecast.

Forecast fuel index	186.9
Change from previous quarter forecast	9.0%
Change from previous quarter actual	15.5%

* Diesel fuel used by locomotives is made from refined crude oil, and therefore has some price change correlation.

** Distillate fuels include a group of closely related products (such as locomotive diesel fuel, the diesel fuel used by trucks, and heating oil) that differ mostly by their sulfur content. Because of these similarities, distillate fuels are produced together.

Materials & Supplies

Second Quarter 2005

The Materials & Supplies Index increased 6.8 percent from the first quarter of 2005. Although the railroads faced price increases in most categories, a nearly 10 percent jump in materials made of metal had the most impact on the Index. Prices for rail increased 17 percent, and prices for some locomotive and freight car parts also experienced double-digit increases.

2005Q2 Materials & Supplies Index = 176.4

2005Q1 Materials & Supplies Index = 165.2

Difference	11.2 basis points
	or
	6.8 %

Equipment Rents

Second Quarter 2005

The equipment rents index consists of two components – car hire and lease rentals. The methodology used to create these two components and the final equipment rents index are explained below.

Car Hire

The car hire component is indexed using data from the Car Hire Accounting Rate Master (CHARM) file. Car hire rates for the forecast quarter are estimated based on data for the most recent month available. For the first quarter, December 1 of the previous year is used. For the second, third and fourth quarters; March 1, June 1, and September 1 are used, respectively. Using data retrieved from the latest CHARM file, an average rate per car is developed. Next, those average rates are grouped into car type categories to create an overall summary of car hire rates. The summary rates are then compared from quarter to quarter to determine the car hire index.

Lease Rentals

The lease rental portion of the equipment rents index uses the Producer Price Index for Industrial Commodities less Fuel and Related Products and Power (PPI-LF). The Commission adopted this surrogate in its decision served March 13, 1987. The AAR uses six years of historical data to derive its forecast for the PPI-LF. The forecast is used not only for lease rentals, but also for the "Other" component of the All-Inclusive Index. Appendix G discusses the forecast in more detail.

Equipment Rent Index Calculation

The table below calculates the Equipment Rent Index, which increased 1.4 percent. The 1.3 percent increase in the Car Hire portion of the Index was caused mostly by higher rates for privately-owned cars – especially tank cars. The PPI-LF proxy for Lease Rentals has had some relatively significant monthly increases throughout 2004, and the January 2005 index jumped at a 9.7 percent annual rate.

	2003 Weight	2005Q1	2005Q2	Percent Change
Car Hire	50.1%	172.7	174.9	1.3 %
Lease Rentals	49.9%	176.3	178.9	1.5
Weighted Average		174.5	176.9	1.4
Weighted Average (Linked)		179.9	182.4	1.4

Depreciation

Second Quarter 2005

The Producer Price Index for Railroad Equipment (PPI-RE) is used to index depreciation expense. The PPI-RE is forecast using an ARIMA process on 6 years of monthly data (a sample size of 72) with the most recent available monthly data being the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent monthly data available. April and July would be the most recent months available for third and fourth quarter forecasts, respectively. The output from the forecast model is shown on page 2 of this appendix for 1982=100. The figure forecast by the model reflects monthly PPI-RE figures that increased at an *annual* rate of 58 percent in December and 24 percent in January. Those two figures were confirmed by the Bureau of Labor Statistics, which also suggested that the increase was probably related to the continuing increases in metals prices that began in late 2003.

Forecasted depreciation index (1982=100)	159.4
Forecasted depreciation index (1980=100)	176.3
Change from previous quarter forecast	9.3%
Change from actual first month of previous quarter	3.9%
Change from same quarter of prior year (actual)	11.9%

Depreciation

Second Quarter 2005

PPI RAIL EQUIPMENT

Forecast Model for PPIRE

ARIMA(0,1,0)*(0,1,0) with log transform

Within-Sample Statistics

Sample size 72	Number of parameters 0
Mean 4.92	Standard deviation 0.02726
R-square 0.9468	Adjusted R-square 0.9475
Durbin-Watson 1.754	Ljung-Box(18)=19.7 P=0.65
Forecast error 0.006247	BIC 0.856
MAPE 0.00308	RMSE 0.9058
MAD 0.4353	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2004-08	143.500
2004-09	144.200
2004-10	145.600
2004-11	145.100
2004-12	150.700
2005-01	153.400

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2005-02	153.754	155.847	157.969
2005-03	155.186	158.183	161.238
2005-04	155.173	158.851	162.616
2005-05	155.369	159.629	164.006
2005-06	155.090	159.852	164.760
QTR AVG	155.211	159.444	163.794
2005-07	154.105	159.296	164.661
2005-08	154.018	159.629	165.445
2005-09	154.388	160.408	166.663

Interest

Second Quarter 2005

The Interstate Commerce Commission, in its decision served February 28, 1989, revised the All-Inclusive Index methodology to include a specific interest component, which is to track changes in the average interest rate from year to year. The interest rate is essentially the embedded cost of debt, i.e., total interest expense divided by average total long term debt. The interest rate is calculated for the most recent year and used until the next year's figures are available. Typically in the fourth quarter filing, the interest rate is updated to the new level. The source for interest expense is Schedule 210, column b, from the R-1 annual report. The lines used from current R-1 annual reports are listed below. The source for average total debt is Schedule 200 from the R-1 annual report. The sums of data from columns b and c (ending and beginning balances) are combined and divided by 2 to compute an average balance. The line numbers are listed below.

Interest Expense (Schedule 210)

Line	
42	Total Fixed Charges
44	Contingent Interest
less	
22	Release of Premium on Funded Debt

Average Total Debt (Schedule 200)

Line	
30	Current Loans and Notes Payable
39	Equipment Obligations and Other Long Term Debt Due Within One Year
41	Funded Debt Unmatured - Non-Current
42	Equipment Obligations - Non-Current
43	Capitalized Lease Obligations - Non-Current
44	Debt in Default - Non-Current
45	Accounts Payable: Affiliated Companies - Non-Current
46	Unamortized Debt Premium - Non-Current

2003	Interest Rate	7.08%
1980	Interest Rate	7.85%
2005Q2	Interest Index	90.2
2005Q1	Interest Index	90.2
	Percent Change	0.0%

Other Expenses

Second Quarter 2005

The Producer Price Index for Industrial Commodities less Fuel and Related Products and Power (PPI-LF) is used to index purchased services, casualties and insurance, loss and damage, taxes (other than income and payroll), general and administrative expenses, and lease rentals. These expenses, when grouped together, are usually called "Other" expenses.

Like the PPI-RE, the PPI-LF is forecast using an ARIMA process on 6 years of monthly data (a sample size of 72) with the most recent available monthly data being the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent monthly data available. April and July would be the most recent months available for third and fourth quarter forecasts respectively. The output from the forecast model is shown on page 2 of this appendix for 1982=100. The figure forecast by the model reflects monthly PPI-LF figures that have jumped at an annual rate of from 3.1 to 9.8 percent every month in 2004, and increased at an annual rate of 9.7 percent for January 2005.

Forecasted Other Expense (1982=100)	159.6
Forecasted Other Expense (1980=100)	178.9
Change from previous quarter forecast	1.5%
Change from actual first month of previous quarter	2.0%
Change from same quarter of prior year (actual)	6.1%

Other Expenses

Second Quarter 2005

PPI INDUSTRIAL COMMODITIES LESS FUEL AND RELATED PRODUCTS AND POWER

Forecast Model for PPILF

Multiplicative Winters: Linear trend, Multiplicative seasonality

Confidence limits proportional to indexes

Component	Smoothing Weight	Final Value
Level	.87962	156.48
Trend	.32432	0.79179
Seasonal	0.99940	

Seasonal Indexes

January - March	1.00011	1.00006	1.00003
April - June	0.99979	0.99981	1.00010
July - September	1.00009	1.00012	0.99959
October - December	1.00188	1.00002	0.99842

Within-Sample Statistics

Sample size 72	Number of parameters 3
Mean 144.4	Standard deviation 4.123
R-square 0.9954	Adjusted R-square 0.9952
Durbin-Watson 1.509	Ljung-Box(18)=24.08 P=0.8475
Forecast error 0.2849	BIC 0.3049
MAPE 0.001528	RMSE 0.2789
MAD 0.2212	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2004-08	152.600
2004-09	153.300
2004-10	154.500
2004-11	154.900
2004-12	155.300
2005-01	156.500

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2005-02	156.687	157.284	157.882
2005-03	157.154	158.072	158.989
2005-04	157.674	158.825	159.977
2005-05	158.274	159.620	160.965
2005-06	158.943	160.458	161.973
QTR AVG	158.297	159.634	160.972

Railroad and Union Abbreviations

Second Quarter 2005

Railroads

ATSF	The Atchison, Topeka & Santa Fe Railway (Merged with Burlington Northern to form BNSF.)
BNSF	BNSF Railway Company
CC	Chicago, Central & Pacific (Part of CN's Grand Trunk Corp. Sometimes noted as CC&P.)
CN	Canadian National Railway (Commonly known as CN, owns Grand Trunk Corporation.)
CNGT	AAR's abbreviation for Grand Trunk Corporation (Most of CN's U.S. operations.)
CP	Canadian Pacific Railway (Also noted as CPR. Owns the U.S. Class I railroad Soo Line.)
CSX	CSX Transportation
DWP	Duluth, Winnipeg & Pacific Railway (Part of CN's Grand Trunk Corp.)
GTW	Grand Trunk Western Railroad (Part of CN's Grand Trunk Corp.)
IC	Illinois Central Railroad (Part of CN's Grand Trunk Corp.)
KCS	Kansas City Southern Railway
NS	Norfolk Southern Combined Railroad Subsidiaries (a.k.a. Norfolk Southern Railway or NS Rail)
SOO	Soo Line Railroad (Most of Canadian Pacific Railway's western U.S. operations.)
SSAM	Sault Saint Marie Bridge Company (Part of CN's Grand Trunk Corp.)
UP	Union Pacific Railroad
WC	Wisconsin Central and subsidiaries (Part of CN's Grand Trunk Corp.)

Major Unions Involved with Railroads

ATDA	American Train Dispatchers Association
BLET	Brotherhood of Locomotive Engineers and Trainmen Division of the International Brotherhood of Teamsters
BMWED	Brotherhood of Maintenance of Way Employees Division of the International Brotherhood of Teamsters
BRS	Brotherhood of Railroad Signalmen
IAM	International Association of Machinists and Aerospace Workers
IBBM	International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers & Helpers
IBEW	International Brotherhood of Electrical Workers
NCFO	National Conference of Firemen and Oilers
SMW	Sheet Metal Workers' International Association
TCU	Transportation Communication International Union
TCU-Carmen	Brotherhood of Railway Carmen Division of the Transportation Communications International Union
UTU	United Transportation Union
UTU-Yard	United Transportation Union Yardmaster Department (also noted as UTU-YMD)

Predecessor Unions (Some AAR databases use these old abbreviations.)

BLE	Brotherhood of Locomotive Engineers (predecessor to BLET)
BMWE	Brotherhood of Maintenance of Way Employees (predecessor to BMWED)
BRC	Brotherhood of Railway Carmen (predecessor to TCU-Carmen)
IBFO	International Brotherhood of Firemen and Oilers (predecessor to NCFO)