

ASSOCIATION
OF AMERICAN
RAILROADS

Craig F. Rocky
Vice President - Policy & Economics

June 5, 2006

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

Dear Mr. Williams:

This submission is the AAR forecast of the third quarter 2006 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2006-3) *Quarterly Rail 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 third quarter 2006 results on the fourth quarter 2002 base, and shows the percentage changes from the previous quarter.

	<u>2006Q2</u>	<u>2006Q3</u>	<u>% Change</u>
All-Inclusive Index	116.5	119.7	2.7
Preliminary RCAF	1.165	1.197	2.7
Forecast Error Adjustment	0.013	-0.005	
RCAF (Unadjusted)	1.178	1.192	1.2
Productivity Adjustment Factor	2.0962	2.1061	
RCAF (Adjusted)	0.562	0.566	0.7
PAF-5	2.1929	2.2087	
RCAF-5	0.537	0.540	0.6

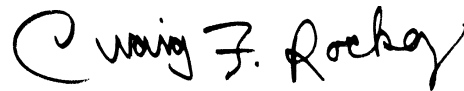
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In its October 3, 1996 decision in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation*, the STB noted its intent to publish, in addition to the RCAF (Unadjusted) and RCAF (Adjusted), an RCAF-5 (i.e., a calculation of the productivity 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 black ink that reads "Craig F. Rockey". The signature is written in a cursive, slightly slanted style.

Craig F. Rockey

Attachments

**Third Quarter 2006
All-Inclusive Index**

Ex Parte No. 290 (Sub-No. 5) (2006-3)

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

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

June 5, 2006

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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 third quarter 2006.

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 (2003) weights were used for the fourth quarter of 2004 through the third quarter of 2005. Beginning with the fourth quarter of 2005, the 2004 weights are used. Like the previous year, Fuel and Other Expenses had the biggest increases in weights. Expenses used for each category's weight calculation all increased by a minimum of five percent, but Fuel and Other experienced the two largest percentage increases in expenses, resulting in an increase in their weights. Labor expenses did not increase as much as most of the others, and had the biggest percentage point (1.5) drop in weighting. All other changes in weights ranged from zero to a decrease of one half of a percentage point. The 2004 (current) and 2003 (previous) weights are shown below.

RCAF Weights		
	Previous 2003	Current 2004
Labor	37.5 %	36.0 %
Fuel	10.6	12.1
Materials & Supplies	4.4	4.4
Equipment Rents	9.4	8.9
Depreciation	10.7	10.6
Interest	3.2	3.0
Other	24.2	25.0

Reweighting 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 Third Quarter 2006

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.

	2004 Weights	Forecast		Percent Change
		Previous 2006Q2	Current 2006Q3	
1. Labor	36.0%	292.5	292.1	-0.1 %
2. Fuel	12.1%	227.9	265.2	16.4
3. M&S	4.4%	187.5	197.2	5.2
4. Equipment Rents	8.9%	186.8	187.3	0.3
5. Depreciation	10.6%	180.9	191.9	6.1
6. Interest	3.0%	92.7	92.7	0.0
7. Other	25.0%	185.3	186.3	0.5
8. Weighted Average				
a. 1980 = 100		226.0	232.3	
b. 1980 = 100 (linked)		223.8	230.0 ¹	
c. 4Q02 = 100		116.5	119.7 ²	2.7

¹ To calculate the 1980 = 100 Linked Index:

$$\begin{aligned} \text{Index}_{80} &= (\text{Current Index} / \text{Previous Index}) * \text{the Previous Quarter Linked Index} \\ &= \quad 232.3 \quad \text{divided by} \quad 226.0 \quad \text{times} \quad 223.8 \\ &= \quad 230.0 \end{aligned}$$

² To calculate the 4Q02 = 100 index:

$$\begin{aligned} \text{Index}_{4Q02} &= (\text{Current Linked Index} / 4Q02 Linking Factor) * 100 \\ &= \quad 230.0 \quad \text{divided by} \quad 192.1 \quad \text{times} \quad 100 \\ &= \quad 119.7 \end{aligned}$$

$$4Q97 \text{ based index} = 132.8$$

$$4Q92 \text{ based index} = 146.6$$

$$4Q87 \text{ based index} = 174.0$$

Forecast vs. Actual All-Inclusive Index First Quarter 2006

As shown below, the first quarter actual index of 116.1 is 0.5 index points below the forecast value of 116.6. Therefore, the forecast error adjustment for the third quarter 2006 is -0.5 index points.

	2004 Weights	First Quarter 2006		Amt Difference
		Forecast	Actual	
1. Labor	36.0%	292.1	292.1	
2. Fuel	12.1%	226.4	219.8	
3. M&S	4.4%	185.6	185.6	
4. Equipment Rents ¹	8.9%	184.6	185.1	
5. Depreciation	10.6%	195.0	183.1	
6. Interest	3.0%	92.7	92.7	
7. Other	25.0%	182.1	182.7	
8. Weighted Average				
a. 1980 = 100		226.1	224.3	
b. 1980 = 100 (linked)		223.9	223.1 ²	
c. 4Q02 = 100 ³		116.6	116.1	-0.5

Forecast error \longrightarrow **-0.5 index points**

	2004 Weights	First Quarter 2006	
		Forecast	Actual
Car-Hire	51.0%	176.0	175.7
Lease Rentals	49.0%	182.1	182.7
Weighted Average		179.0	179.1
Weighted Average (linked)		184.6	185.1

² Linked actual index = (actual index / previous actual index) x previous linked actual index.
 $223.1 = 224.3 / 229.0 \times 227.8$

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 January 26, 2006, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No. 4) which added the year 2004 to the Productivity Adjustment Factor (PAF) and deleted the year 1999. This creates an average annual productivity for 2000 through 2004 of 1.9 percent – a decrease from the 1999 through 2003 average of 2.9 percent. The 1.9 percent matches the figure used three years prior. 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.

Year	Output Index (1)	Input Index (2)	Productivity ¹ Changes (3)
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
2004	1.033	1.057	<u>0.977</u>
Average			1.019
Previous Average (1999-2003)			1.029

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.

For 2000-2004 use fourth root of avg. productivity change		1.0047	
For 1999-2003 use fourth root of previous avg. change		1.0072	
Quarter	Year	PAF	PAF-5
Q1	2006	<u>2.0864</u>	2.1772
Q2	2006	2.0962	2.1929
Q3	2006	2.1061	2.2087
Q4	2006	2.1160	2.2246
Q1	2007	2.1259	2.2351

1999-2003 → (points to 2.1772)
2000-2004 → (points to 2.2087)

Rail Cost Adjustment Factor

Third Quarter 2006

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 2006Q2	Current 2006Q3	Percent Change
All-Inclusive Index ¹	116.5	119.7	2.7
Preliminary RCAF ²	1.165	1.197	2.7
Forecast Error Adjustment ³	<u>0.013</u>	<u>-0.005</u>	
RCAF (Unadjusted) ⁴	1.178	1.192	1.2
Productivity Adjustment Factor ⁵	2.0962	2.1061	
RCAF (Adjusted) ⁶	0.562	0.566	0.7
PAF-5 ⁷	2.1929	2.2087	
RCAF-5 ⁸	0.537	0.540	0.6

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

Third Quarter 2006

The third quarter 2006 Labor Index is forecast to decline 0.1 percent. Wages increased by 0.2 percent, but Supplements declined 0.7 percent. Table A-1 on page 3 of this appendix lists the hourly rates for wages and supplements used to calculate the Labor Index. Appendix H lists abbreviations for railroads and unions used in the text below. By coincidence, the third quarter Labor Index matches its first quarter version.

Wage Index

The Wage Index portion of the Labor Index is forecast to increase 0.2 percent. One of the major causes of this increase was a 1 cent cost of living allowance (COLA) increase to most unions. In addition, a profit sharing payment made by one of the railroads was higher than the previous year.

Wage Increases: COLA increases of just one cent were added to the Index for all of the unions represented by national agreements except the Brotherhood of Railway Signalmen. In addition, many independent unions also received the same COLA increase. Nearly two dozen independent railroad unions received a three percent general wage increase instead of a COLA increase. All but one of these unions were part of Canadian National's (CN) group of U.S. railroads. Over half of these CN increases involved the International Association of Machinists and Aerospace Workers, the National Conference of Firemen and Oilers, or the Brotherhood of Maintenance of Way Employees.

Lump Sums: Two lump sums relating to new labor agreements for the Soo Line and CN's Sault Saint Marie Bridge Company (an ore-hauling railroad) were added to the Lump Sum rate. These additions accounted for about half of the \$0.002 increase, while higher interest rates accounted for the remainder. The Soo Line, which was the larger of the two lump sums, has a new arbitration agreement with its Brotherhood of Locomotive Engineers and Trainmen (BLET) that includes a Longevity Bonus and a lump sum payment.

Back Pay: The back pay rate decreased 0.2 cents because of the complete amortization and removal of three amounts from a year ago. Some of the decrease was offset by a new back pay amount relating to the new Soo Line arbitration agreement with the BLET.

Other: Other wages contains the amortization of a profit sharing payment that the BNSF Railway makes each year to its dispatchers, yardmasters, and engineers. The second quarter 2006 contained the amortization of the profit sharing payment made in early 2005 for performance in 2004, and that amount has now been completely amortized and removed from the Index. The third quarter 2006 contains the amortization of the profit sharing payment made in early 2006 for performance in 2005. This new profit sharing amount is higher than last year's payment, causing an increase of 4.4 cents in the rate for this component of the index.

Labor

Third Quarter 2006

Supplements Index

The Supplements Index is forecast to decrease 0.7 percent from the second quarter filing. Most of this change is caused by a decrease in the Other component.

Health & Welfare: The Health & Welfare hourly rate decreased \$0.01 because of small changes effective July 1. Employee Health & Welfare cost sharing increased for national agreement employees in the International Association of Machinists and Aerospace Workers union. In addition, two independent unions began Health & Welfare cost sharing.

Railroad Retirement: The Railroad Retirement and Medicare hourly rate had a very slight increase, \$0.007, that corresponded with slightly higher taxable earnings.

Unemployment Insurance: The Unemployment Insurance rate was unchanged for this quarter.

Other: The "Other" category is a reflection of all other fringe benefits, and currently contains employer contributions to employee 401(k) accounts, plus employer contributions to employee stock plans that are recorded as fringe benefits. The decrease of 7.4 cents was caused by lower employer contributions – a second quarter employer contribution to an employee stock ownership plan for one large union is not part of the third quarter total.

Labor Index Calculation

As shown in table A-1 on the next page, the 0.2 percent increase in the Wage Index and the 0.7 percent decrease in the Supplements Index had a combined effect of a 0.1 percent decrease in the Labor Index. The linked third quarter 2006 index is 292.1.

Fuel

Third Quarter 2006

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.

April 2006 railroad locomotive diesel fuel prices are at their third highest monthly average ever, surpassed only by the post-hurricane spike period of September and October 2005. Not only have prices increased for four consecutive months, but also the rate of increase has accelerated for three consecutive months. Prices for April jumped 9 percent from the March average.

Monthly average prices for crude oil* rose in March, April, and May. The spot price for West Texas Intermediate crude oil averaged \$70.84 for May – an all-time high for monthly averages, and was above \$71 on June 2. (Heating oil** prices were also trending upward during that period.) Tensions between the U.S. and Iran, plus another attack on Nigerian oil infrastructure, have been a factor for oil prices. In addition to supply concerns, demand from both China and the U.S. is expected to continue to be strong. One industry analyst has predicted the price for crude oil will reach \$78 by mid-summer, caused by strong global demand and concern in the U.S. during hurricane season.

The railroads believe that July (third quarter) locomotive diesel fuel prices will be 4.9 percent higher than the April (second quarter) level actually experienced. Because the second quarter fuel forecast was much too low, the forecast of a 4.9 percent increase from the actual average price is the equivalent of a 16.4 percent increase from the second quarter forecast.

Forecast Fuel Index	265.2
Change from previous quarter forecast	16.4%
Change from previous quarter actual	4.9%

* Diesel fuel used by locomotives is made from refined crude oil.

** Heating oil and locomotive diesel fuel are part of a group of closely related products that differ mostly by their sulfur content. Because of these similarities, these fuels are produced together and have similar pricing trends.

Materials & Supplies

Third Quarter 2006

The Materials & Supplies Index increased 5.2 percent from the second quarter of 2006. Higher prices for wheel sets, ballast, and locomotive lube oil caused much of the increase. In addition to regional purchasing, strong demand for crushed stone from non-railroad users contributed to the higher ballast prices.

2006Q3 Materials & Supplies Index = 197.2

2006Q2 Materials & Supplies Index = 187.5

Difference	9.7 basis points
	or
	5.2 %

Equipment Rents Third Quarter 2006

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 rentals 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 Rents Index. The Car Hire portion of the Index was unaffected by minuscule changes in rates for privately-owned cars. A 0.5 percent increase in Lease Rentals combined with the unchanged Car Hire Index to cause the overall Equipment Rent Index to rise just 0.3 percent.

	2004	2006Q2	2006Q3	Percent
	Weight			Change
Car Hire	51.0%	177.0	177.0	0.0 %
Lease Rentals	49.0%	185.3	186.3	0.5
Weighted Average		181.1	181.6	0.3
Weighted Average (Linked)		186.8	187.3	0.3

Depreciation Third Quarter 2006

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 had not been showing a pattern until recently, making forecasts difficult. However, the most recent five months have all increased from the prior month, and the March figure increased at an annual rate of 20 percent. Although the current forecast is up 6.1 percent from the previous quarter forecast, the index is below the forecast from two quarters ago.

Forecast of Depreciation Index (1982=100)	173.5
Forecast of Depreciation Index (1980=100)	191.9
Change from previous quarter forecast	6.1%
Change from actual first month of previous quarter	2.6%
Change from same quarter of prior year (actual)	7.3%

Depreciation Third Quarter 2006

PPI RAIL EQUIPMENT

Recommended model: Exponential Smoothing
 Forecast Model for PPIRE
 Holt exponential smoothing: Linear trend, No seasonality
 Confidence limits proportional to level

Component	Smoothing Weight	Final Value
Level	1.00000	169.10
Trend	0.12987	1.1070

Within-Sample Statistics

Sample size 72	Number of parameters 2
Mean 142.8	Standard deviation 11
R-square 0.9901	Adjusted R-square 0.9899
Durbin-Watson 1.696	Ljung-Box(18)=28.84 P=0.9496
Forecast error 1.103	BIC 1.154
MAPE 0.004028	RMSE 1.088
MAD 0.6063	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2005-11	161.900
2005-12	162.200
2006-01	163.300
2006-02	165.400
2006-03	167.900
2006-04	169.100

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2006-05	167.728	170.207	172.686
2006-06	167.573	171.314	175.054
2006-07	167.748	172.421	177.094
2006-08	168.080	173.528	178.976
2006-09	168.509	174.635	180.761
QTR AVG	168.446	173.528	178.944
2006-10	169.006	175.742	182.478
2006-11	169.553	176.849	184.144
2006-12	170.141	177.956	185.770

Interest Third Quarter 2006

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

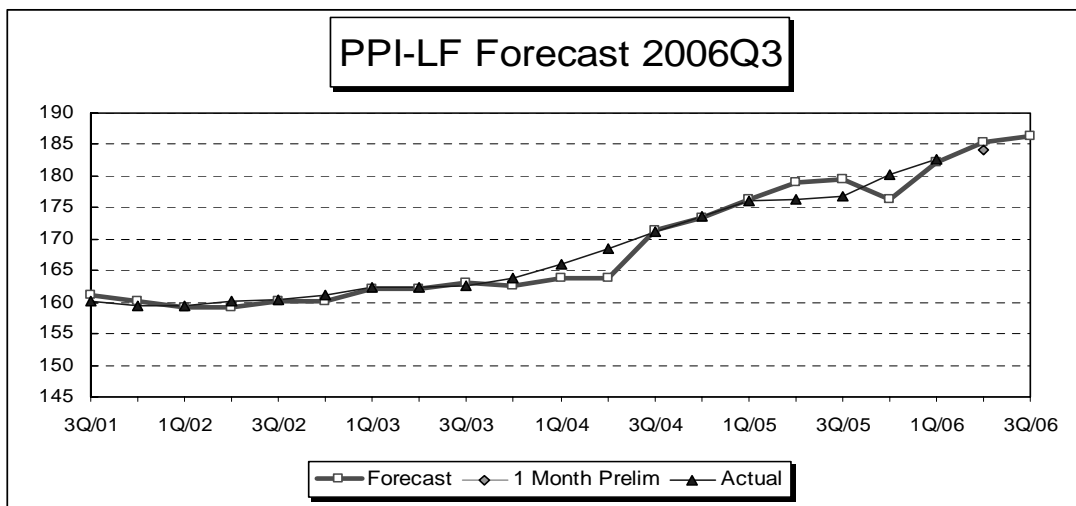
2004	Interest Rate	7.28%
1980	Interest Rate	7.85%
2006Q3	Interest Index	92.7
2006Q2	Interest Index	92.7
	Percent Change	0.0%

Other Expenses Third Quarter 2006

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 month 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 been increasing at higher rates. The monthly figure for April increased at an annual rate of six percent.

Forecast of Other Expense Index (1982=100)	166.2
Forecast of Other Expense Index (1980=100)	186.3
Change from previous quarter forecast	0.5%
Change from actual first month of previous quarter	1.1%
Change from same quarter of prior year (actual)	5.4%



Other Expenses Third Quarter 2006

PPI INDUSTRIAL COMMODITIES LESS FUEL AND RELATED PRODUCTS AND POWER

Recommended model: Box-Jenkins
Forecast Model for PPILF
ARIMA(1,1,0)*(1,1,0) with log transform

Term	Coefficient	Std. Error	t-Statistic	Significance
a[1]	0.5192	0.1117	4.6477	1.0000
A[12]	-0.6358	0.1119	-5.6822	1.0000

Within-Sample Statistics

Sample size 72	Number of parameters 2
Mean 4.999	Standard deviation 0.04557
R-square 0.9977	Adjusted R-square 0.9976
Durbin-Watson 2.157	Ljung-Box(18)=28.57 P=0.9461
Forecast error 0.002212	BIC 0.3431
MAPE 0.001558	RMSE 0.3278
MAD 0.2339	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2005-11	161.000
2005-12	161.300
2006-01	162.400
2006-02	163.200
2006-03	163.500
2006-04	164.300

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2006-05	163.847	164.622	165.402
2006-06	163.365	164.774	166.195
2006-07	163.340	165.319	167.322
2006-08	163.675	166.165	168.693
2006-09	164.164	167.114	170.118
QTR AVG	163.726	166.199	168.711
2006-10	165.326	168.708	172.159
2006-11	165.420	169.177	173.021
2006-12	165.467	169.570	173.775

Railroad and Union Abbreviations

Third Quarter 2006

Railroads

ATSF	The Atchison, Topeka & Santa Fe Railway (Merged with Burlington Northern to form BNSF.)
BLE	Bessemer & Lake Erie Railroad (Part of CN's Grand Trunk Corp.)
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 (Almost all 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
DMIR	Duluth, Missabe & Iron Range Company (Part of CN's Grand Trunk Corp.)
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 (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)