

ASSOCIATION
OF AMERICAN
RAILROADS

John T. Gray
Senior Vice President - Policy & Economics

June 5, 2020

The Honorable Cynthia T. Brown
Chief, Section of Administration
Office of Proceedings
Surface Transportation Board
395 E Street, SW
Washington, DC 20423-0001

This submission is the AAR forecast of the third quarter 2020 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2020-3) *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 of 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 2020 results and compares to the previous quarter. Both quarters are shown on a 4Q\2017=100 base.

	<u>2020Q2</u>	<u>2020Q3</u>	<u>% Change</u>
All-Inclusive Index	105.7	99.7	-5.7
Preliminary RCAF	1.057	0.997	-5.7
Forecast Error Adjustment	-0.006	-0.008	
RCAF (Unadjusted)	1.051	0.989	-5.9
Productivity Adjustment Factor	2.3764	2.3823	
RCAF (Adjusted)	0.442	0.415	-6.1
PAF-5	2.5220	2.5250	
RCAF-5	0.417	0.392	-6.0

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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.

Our quarterly non-proprietary work papers underlying this submission are e-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. We have notified Pedro Ramirez, in the STB office handling this proceeding, of our plan to e-file the submission and non-proprietary work papers. A second copy of the submission and non-proprietary work papers, plus selected highly confidential work papers, will be provided to Mr. Ramirez's Data Collection and Auditing Team. All work papers are available for STB inspection. Questions should be directed to me or Tiffany Placker (202 639-2381) of this office.

Sincerely,

A handwritten signature in black ink, appearing to read "John T. Gray". The signature is fluid and cursive, with the first name "John" being the most prominent.

John T. Gray

Attachments

**Third Quarter 2020
All-Inclusive Index**

Ex Parte No. 290 (Sub-No. 5) (2020-3)

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

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

June 5, 2020

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Introduction

On January 2, 1985, the Interstate Commerce Commission (ICC) adopted the All-Inclusive Index 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 the RCAF-5, which was instituted by a Surface Transportation Board decision served October 3, 1996 in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation*. The AAR and its members do not believe the additional productivity-adjusted index is required or permitted by the applicable statute, and do not endorse its publication.

This quarter's projection of railroad costs is for the third quarter 2020. The coronavirus pandemic has had a significant impact on fuel prices, and its effects are evident in this quarter's RCAF calculation.

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 expense 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 2018 (current) and 2017 (previous) weights are shown below. Weights calculated from 2017 data were used for the fourth quarter of 2018 through the third quarter of 2019. Beginning with the fourth quarter of 2019, weights calculated using 2018 data are used. The weight for Fuel increased 3 percentage points, and Materials & Supplies' was up 0.2 percentage points. The weight for Interest stayed the same. The remaining component weights all decreased by 0.3 to 1.8 percentage points.

Weights for RCAF's All-Inclusive Index		
	2018	2017
Labor	33.0 %	34.8 %
Fuel	15.9	12.9
Materials & Supplies	5.1	4.9
Equipment Rents	5.3	5.7
Depreciation	15.0	15.7
Interest	2.1	2.1
Other	23.6	23.9
Total	100.0	100.0

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 Third Quarter 2020

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.

	2018 Weights	Forecast		Percent Change
		Previous 2020Q2	Current 2020Q3	
1. Labor	33.0%	441.9	442.8	0.2 %
2. Fuel	15.9%	231.2	142.8	-38.2
3. M&S	5.1%	266.7	260.7	-2.2
4. Equipment Rents	5.3%	239.4	235.0	-1.8
5. Depreciation	15.0%	225.8	226.0	0.1
6. Interest	2.1%	57.2	57.2	0.0
7. Other	23.6%	235.5	224.0	-4.9
8. Weighted Average				
a. 1980 = 100		299.5	282.5	
b. 1980 = 100 (linked)		279.6	263.7 ¹	
c. 4Q17 = 100		105.7	99.7 ²	-5.7

¹ Index80 = (Current Index / Previous Index) * the Previous Quarter Linked Index
= (282.5 / 299.5) x 279.6
= 263.7

² To calculate the 4Q17 = 100 index:

Index4Q17 = (Current Linked Index / 4Q17 Basing Factor) * 100
= 263.7 divided by 264.5 times 100
= 99.7

Indexes based on other periods:

- 4Q12 based index = 263.7 / 297.6 x 100 = 88.6
- 4Q07 based index = 263.7 / 245.9 x 100 = 107.2
- 4Q02 based index = 263.7 / 192.1 x 100 = 137.3
- 4Q97 based index = 263.7 / 173.2 x 100 = 152.3
- 4Q92 based index = 263.7 / 156.9 x 100 = 168.1

Forecast vs. Actual All-Inclusive Index First Quarter 2020

Because of data availability, the forecast error adjustment has a two-quarter lag from each filing. As shown below, the first quarter actual index of 105.7 is 0.8 index points below the forecast value of 106.5. Therefore, the forecast error adjustment for third quarter 2020 is -0.8 index points.

	2018 Weights	First Quarter 2020		Amt Difference
		Forecast	Actual	
1. Labor	33.0%	443.7	443.7	
2. Fuel	15.9%	250.2	238.4	
3. M&S	5.1%	267.0	267.0	
4. Equipment Rents ¹	5.3%	240.1	241.1	
5. Depreciation	15.0%	225.3	226.0	
6. Interest	2.1%	57.2	57.2	
7. Other	23.6%	229.9	232.3	
8. Weighted Average				
a. 1980 = 100		301.8	300.6	
b. 1980 = 100 (linked)		281.7	279.5 ²	
c. 4Q17 = 100 ³		106.5	105.7	-0.8

Forecast error → **-0.8 index points**

1	2018 Weights	First Quarter 2020	
		Forecast	Actual
Car-Hire	59.1%	226.8	225.8
Lease Rentals	40.9%	229.9	232.3
Weighted Average		228.1	228.5
Weighted Average (linked)		240.1	241.1

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

$$279.5 = 300.6 / 304.8 \times 283.4$$

³ The 4Q17 based indexes are 1980 based indexes divided by the 4Q17 basing factor (264.5/100).
 Other basing factors are: 4Q12 = 297.6; 4Q07 = 245.9; 4Q02 = 192.1; 4Q97 = 173.2; and 4Q92 = 156.9.

Productivity

On February 6, 2020, the Surface Transportation Board served a decision which proposed to adopt 1.0 percent as the geometric average productivity change for the five most recent years available. Their five year rolling geometric average calculation added the year 2018 and removed the year 2013. The components of this average annual value are shown on the following table in ratio format – therefore, 1.010 is the same as an increase of 1.0 percent. Productivity changes are calculated by multiplying each of the five productivity changes together and taking the result to the one-fifth power. The productivity adjustment factors (PAF) for each quarter are calculated by increasing the previous quarter's PAF by quarterly versions of the annual rate, which are the fourth root of the geometric average annual growth rate. The difference between the PAF and the PAF-5 is the timing of the five-year productivity trend.

Comparison of Output, Input, & Productivity			
2014 - 2018			
Year	Output Index (1)	Input Index (2)	Productivity Changes (3)
2014	1.055	1.036	1.018
2015	0.913	0.972	0.939
2016	0.955	0.941	1.015
2017	1.045	0.992	1.053
2018	1.032	1.004	1.028
Average			1.010
Previous Average (2013-2017)			1.005

Calculation of PAF and PAF-5				
For 2014-2018, use fourth root of avg. productivity change = 1.0025				
For 2013-2017, use fourth root of avg. productivity change = 1.0012				
Quarter	Year	PAF	PAF-5	
Q1	2020	2.3705	2.5190	← 2013-2017
Q2	2020	2.3764	2.5220	
Q3	2020	2.3823	2.5250	← 2014-2018
Q4	2020	2.3883	2.5280	
Q1	2021	2.3943	2.5343	

Rail Cost Adjustment Factor Third Quarter 2020

Four RCAF values are presented in this filing. Two are not modified for productivity (Preliminary RCAF and RCAF Unadjusted), and two incorporate a productivity calculation (RCAF Adjusted and RCAF-5). The All-Inclusive Index and all four RCAF values, plus the percent change for each, are shown below. Note that beginning with the 2018Q1 index, the All-Inclusive Index was rebased to a 2017Q4=100 basis as required in the applicable statute.

	Previous 2020Q2	Current 2020Q3	Percent Change
All-Inclusive Index ¹	105.7	99.7	-5.7
Preliminary RCAF ²	1.057	0.997	-5.7
Forecast Error Adjustment ³	-0.006	-0.008	
RCAF (Unadjusted) ⁴	<u>1.051</u>	<u>0.989</u>	-5.9
Productivity Adjustment Factor ⁵	<u>2.3764</u>	<u>2.3823</u>	
RCAF (Adjusted) ⁶	0.442	0.415	-6.1
PAF-5 ⁷	2.5220	2.5250	
RCAF-5 ⁸	0.417	0.392	-6.0

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 2020

The third quarter 2020 Labor Index is 0.2 percent higher than the previous quarter.

Wage Rate Index

The Wage Rate Index portion of the Labor Index fell 0.1%.

Wage Increases: There are no national agreement wage increases currently scheduled for the third quarter. There were several wage increases for independent groups, but they had a very minimal impact on the index.

Lump Sums: The third quarter lump sum rate decreased by 0.1 cents. One amount was fully amortized and removed, but it was replaced by one new similar amount.

Back Pay: The back pay rate decreased by 1.4 cents. Two amounts were fully amortized and removed, and there were no new amounts added.

Other: In wages, "Other" contains the amortization of incentive compensation payments (similar to lump sums) that one railroad makes each year to its dispatchers, yardmasters, and locomotive engineers. The third quarter rate is 4 cents lower than last quarter.

Labor Third Quarter 2020

Supplements Index

The Supplements Index increased by 0.7 percent, mostly the result of the "Other" fringe benefits category.

Health & Welfare: The Health & Welfare rate is unchanged from the prior quarter.

Railroad Retirement: The Railroad Retirement rate decreased by 0.1 percent because of lower taxable wages.

Unemployment Insurance: The Unemployment Insurance rate was unchanged from the prior quarter.

Other: The "Other" category is a reflection of all other fringe benefits, and currently contains known employer contributions to employee 401(k) accounts and employer contributions to employee stock plans that are recorded as fringe benefits. The third quarter rate is 12.5 cents (61.6 percent) higher than last quarter.

Labor Index Calculation

As shown in Table A-1 on the next page, the 0.1 percent decrease in the Wage Rate Index and the 0.7 percent increase in the Supplements Index combined to cause the Labor Index to rise 0.2 percent from the previous quarter. The linked third quarter 2020 Labor index is 442.8, which is 0.4 percent lower than one year ago.

Labor Third Quarter 2020

Table A-1 Labor Index

	2020Q2	2020Q3	Change	
			Percent	Amount
<u>Base Wage</u> – Straight Time & Pay For Time Not Worked	\$44.456	\$44.457	0.0%	\$0.001
Adjustments:				
Lump Sum	0.334	0.333	-0.3%	-\$0.001
Back Pay	0.014	0.000	-100.0%	-\$0.014
Other	0.204	0.164	-19.6%	-\$0.040
Total Wages	<u>45.008</u>	<u>44.954</u>	-0.1%	-\$0.054
Health & Welfare Benefits	8.078	8.078	0.0%	\$0.000
RR Retirement & Medicare	9.298	9.290	-0.1%	-\$0.008
Unemployment Insurance	0.097	0.097	0.0%	\$0.000
Other	0.203	0.328	61.6%	\$0.125
Total Supplements	<u>\$17.676</u>	<u>\$17.793</u>	0.7%	\$0.117
Total Labor (as info only)	\$62.684	\$62.747		
Wage Index¹	385.2	384.7	-0.1%	
Supplements Index²	653.2	657.5	0.7%	
Total labor Index, 2018 Weights ³	462.9	463.8		
Labor Index (linked)⁴	441.9	442.8	0.2%	

¹ 1980 wage rate \$11.685

² 1980 supplements rate \$2.706

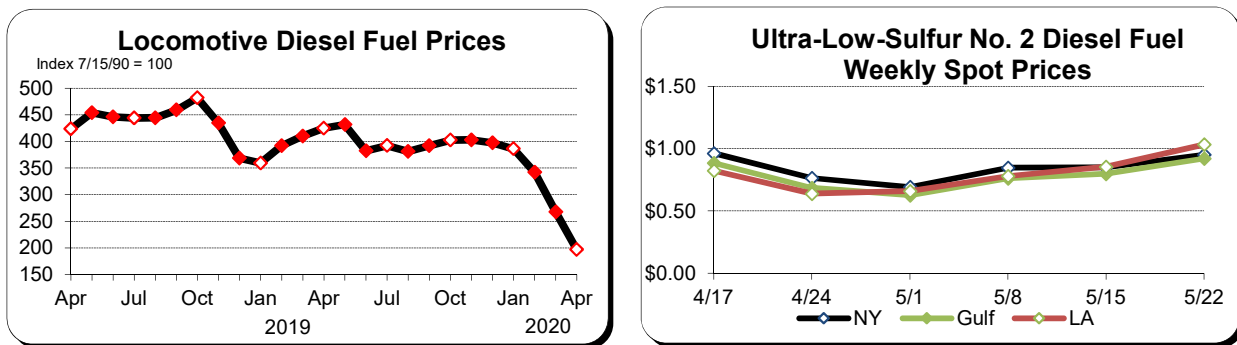
³ 2018 weights: wages, supplements 71.0% 29.0%

⁴ 2020Q3 linked Index = 2020Q2 linked x (2020Q3 / 2020Q2)
 = 441.9 x 463.8 / 462.9

Fuel Third Quarter 2020

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. Fuel purchases are assumed to remain in inventory for 30 days before the fuel is consumed (and therefore expensed). Therefore, prices *paid* in the first month of each quarter are for fuel *expensed* in the second (or middle) month of the quarter, and the middle month expensed is used to represent each quarter.

The average locomotive diesel fuel price has fallen significantly in the last four months. While average prices for locomotive diesel fuel are available only through April 2020, data through four weeks of May are available for related fuel types. According to the Energy Information Administration, the daily spot price as of May 27 for Ultra-Low-Sulfur Diesel Fuel* is about 14 percent higher than the average for April. The chart below (on left) shows the AAR's Monthly Locomotive Diesel Fuel Price Index through April 2020. The second chart (on right) shows recent spot prices for Ultra-Low-Sulfur No. 2 Diesel Fuel as reported by the Energy Information Administration.



Using information from the EIA, prices rose slightly in May from April. Railroads that responded to the AAR's forecast survey expect prices to increase by July (Q3) compared to prices that actually occurred for April (Q2). The third quarter 2020 forecast is 38.2 percent lower than the previous quarter forecast, and 17.3% higher than the prior quarter actual.

Forecast Fuel Index (1980 = 100)	142.8
Change from previous quarter forecast	-38.2%
Change from previous quarter actual	17.3%

* Heating oil, Ultra-Low-Sulfur No. 2 Diesel Fuel, and locomotive diesel fuel are part of a group of closely related products, commonly labeled as distillates, that differ mostly by their sulfur content. Because of these similarities, these fuels are produced together and have similar pricing trends.

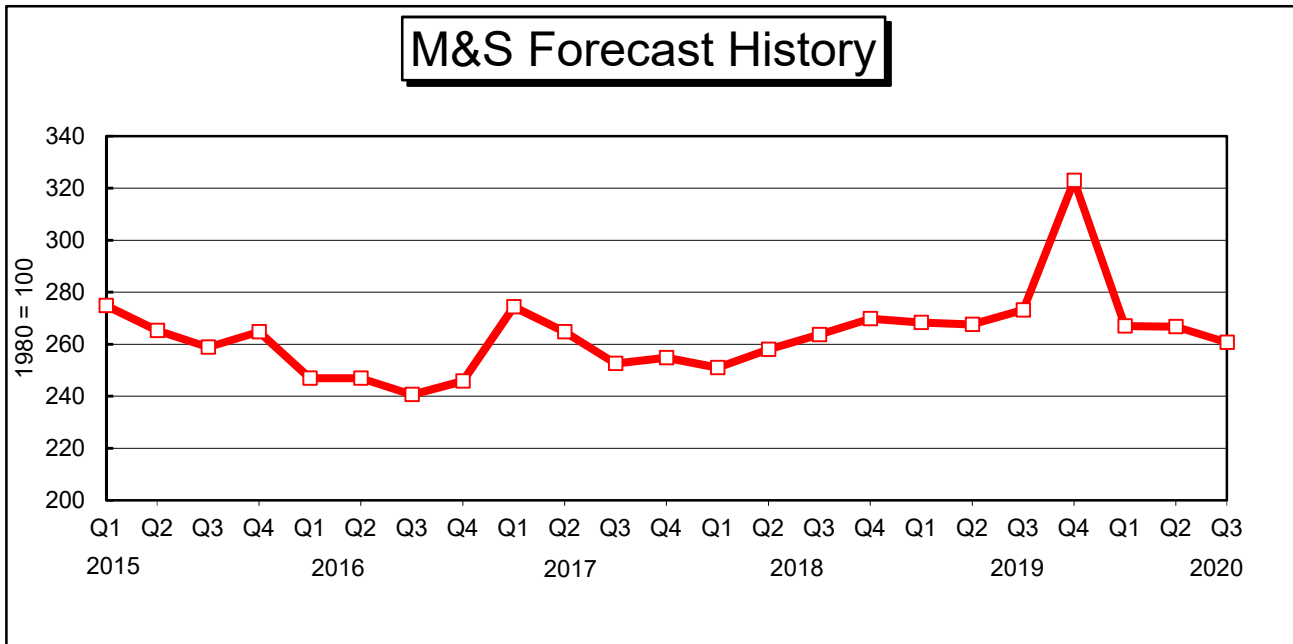
Materials & Supplies Third Quarter 2020

The third quarter 2020 Materials & Supplies Index fell 2.2 percent from the previous quarter. Prices decreased for Forest Products, Metal Products, and Miscellaneous Products.

2020Q3 Materials & Supplies Index = 260.7

2020Q2 Materials & Supplies Index = 266.7

Difference	-6.0 basis points
	or
	-2.2 %



Equipment Rents Third Quarter 2020

The Equipment Rents Index consists of two components – car hire and lease rentals. The methodologies 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 active freight cars using the most recent data available. For the first quarter, December 1 of the previous year is typically used. For the second, third and fourth quarters; March 1, June 1, and September 1 are usually used, respectively. Using data retrieved from the latest CHARM file, an average rate per car is developed. Next, those average rates are grouped into four car type categories to create an overall summary of car hire rates. The summary rates are then compared from quarter to quarter, and weighted, 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 Rents Index Calculation

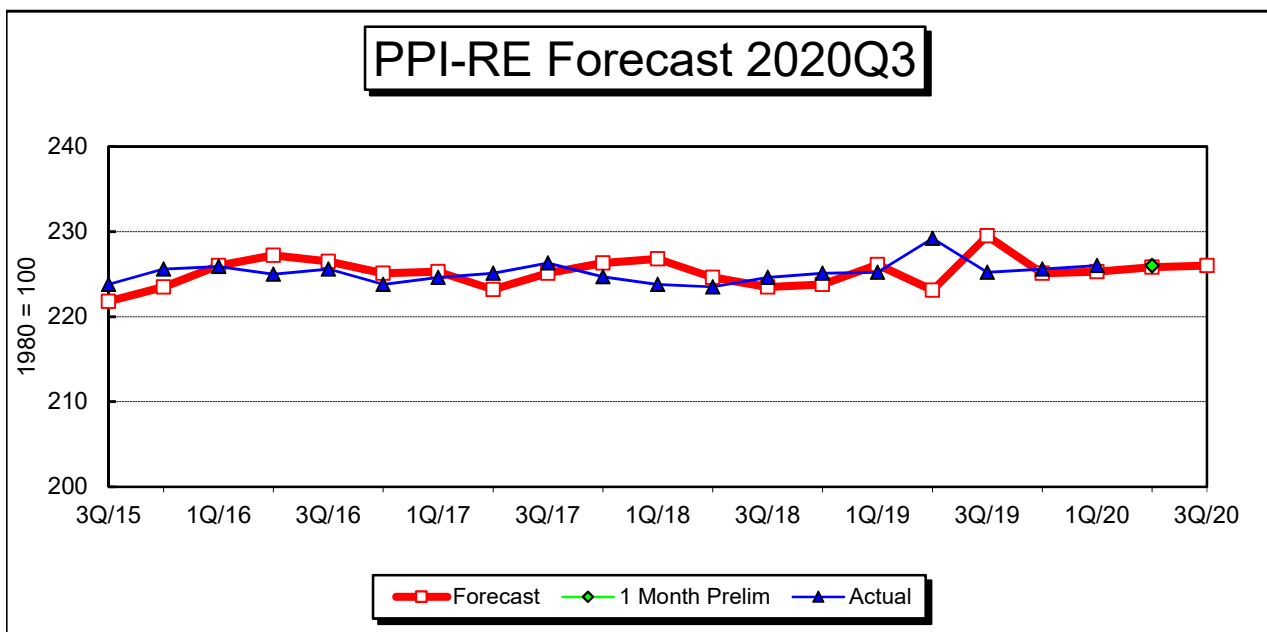
The table below shows the results of the Equipment Rents Index calculation. The third quarter Car Hire portion of the Index increased 0.4 percent. The projected PPI-LF (See Appendix G) used as a proxy for Lease Rentals, decreased 4.9 percent. Combined, these changes caused the Equipment Rents Index to fall 1.8 percent.

	2018 Weight	2020Q2	2020Q3	Percent Change
Car Hire	59.1%	221.8	222.6	0.4 %
Lease Rentals	40.9%	235.5	224.0	-4.9
Weighted Average		227.4	223.2	-1.8
Weighted Average (Linked)		239.4	235.0	-1.8

Depreciation Third Quarter 2020

The Producer Price Index for Railroad Equipment (PPI-RE) is used to index depreciation expense. The PPI-RE is forecast using an ARIMA (Auto-Regressive Integrated Moving Average) process where a statistical package picks the model that best fits the historical data set (see next page), and that model is then used for the forecast. The historical data set contains 6 years of monthly data (a sample size of 72), where the most recent available data point is 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 period 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 on a 1982=100 basis. The figure forecast by the model is 0.1% higher than the previous quarter's forecast.

Forecast of Depreciation Index (1982=100)	204.3
Forecast of Depreciation Index (1980=100)	226.0
Change from previous quarter forecast	0.1%
Change from actual first month of previous quarter	0.0% = 0.00%
Change from same quarter of prior year (actual)	0.4%



Depreciation Third Quarter 2020

PPI RAILROAD EQUIPMENT

Expert Analysis

Using rule-based logic I have narrowed down the choice to exponential smoothing or Box-Jenkins. I will perform an out-of-sample test to select between these two approaches.

The cumulative MAD for Exponential smoothing was 0.53 and for Box-Jenkins was 0.92. The rolling out-of-sample test used a maximum horizon of 12 and generated 78 forecasts for each method.

Based on the lower MAD, I will use Exponential Smoothing.

Model Details

Expert selection

**Simple exponential smoothing: No trend, No seasonality
NN(0.800)**

Component	Smoothing Wgt	Final Value
Level	0.8	204.3

Within-Sample Statistics

Sample size	72	No. parameters	1
Mean	202.43	Std. deviation	1.98
R-square	0.76	Adj. R-square	0.76
Durbin-Watson	2	Ljung-Box(18)	17.9 P=0.54
Forecast error	0.96	BIC	0.99
MAPE	0.3	SMAPE	0.3
RMSE	0.96	MAD	0.62
MAD/Mean Ratio	0		

Actual Values for the Most Recent 6 Periods:

Actual

2019-Nov	203.9
2019-Dec	204.0
2020-Jan	204.3
2020-Feb	204.3
2020-Mar	204.3
2020-Apr	204.3

Forecasted Values

	2.5 Lower	Forecast	97.5 Upper
Date	2.5 Lower	Forecast	97.5 Upper
2020-May	202.367	204.299	206.232
2020-Jun	201.824	204.299	206.775
2020-Jul	201.381	204.299	207.218
2020-Aug	200.997	204.299	207.602
2020-Sep	200.652	204.299	207.946

Interest Third Quarter 2020

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 finalized. The source data are from a summary of the annual reports (Form R-1) submitted by each of the Class I railroads. Although the data set is received at the end of March, it is not used until the September filing. This enables data to be entered into a database and reviewed – and any revisions made, if necessary, before the data are used in the Index. The current Interest Index is based on 2018 data, and was updated in the Q4 filing submitted on September 5, 2019. The Interest Index based on 2018 decreased to 57.2 from 62.4 in 2017, and is the lowest in recent history. It is close to the 2015 level, which reached 57.5.

The R-1 source for interest expense is Schedule 210, column b. The lines currently used are listed below. The source for average total debt is Schedule 200. 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 listed below account for the line number changes effective beginning with the 2016 annual report.

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	
29	Current Liabilities, Loans and Notes Payable
38	Equipment Obligations and Other Long Term Debt Due Within One Year
40	Non-Current Liabilities: Funded Debt Unmatured
41	Non-Current Liabilities: Equipment Obligations
42	Non-Current Liabilities: Capitalized Lease Obligations
43	Non-Current Liabilities: Debt in Default
44	Non-Current Liabilities: Accounts Payable: Affiliated Companies
45	Non-Current Liabilities: Unamortized Debt Premium

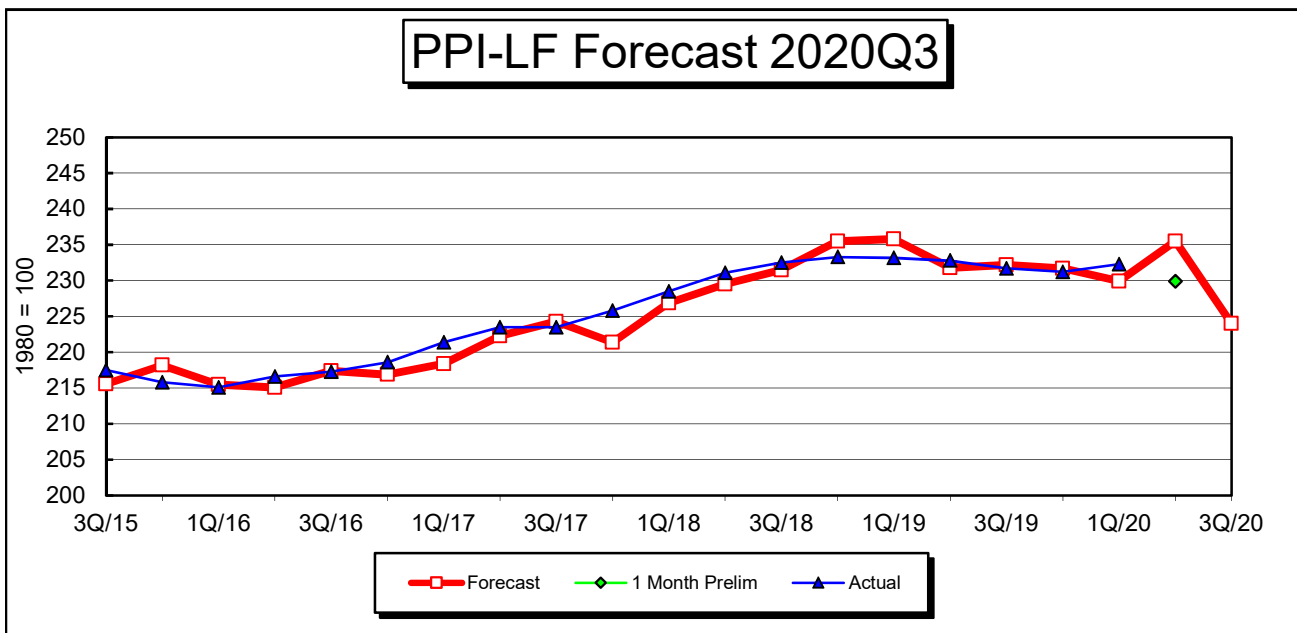
2018	Interest Rate	4.49%
1980	Interest Rate	7.85%
2020Q3	Interest Index	57.2
2020Q2	Interest Index	57.2
	Percent Change	0.0%

Other Expenses Third Quarter 2020

The Producer Price Index for Industrial Commodities less Fuels 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 is 4.9 percent lower than the prior quarter forecast.

Forecast of Other Expense Index (1982=100)	199.8
Forecast of Other Expense Index (1980=100)	224.0
Change from previous quarter forecast	-4.9%
Change from actual first month of previous quarter	-2.6%
Change from same quarter of prior year (actual)	-3.3%



Other Expenses Third Quarter 2020

PPI INDUSTRIAL COMMODITIES LESS FUEL AND RELATED PRODUCTS AND POWER

Expert Analysis

Using rule-based logic I have narrowed down the choice to exponential smoothing or Box-Jenkins I will perform an out-of-sample test to select between these two approaches

The cumulative MAD for Exponential smoothing was 1.37 and for Box-Jenkins was 1.16.
The rolling out-of-sample test used a maximum horizon of 12 and generated 78 forecasts for each method

Based on the lower MAD, I will use Box-Jenkins.

Model Details

Expert selection

Box-Jenkins
ARIMA(1, 1, 0)*(0, 0, 1)

Term	Coefficient	Std. Error	t-Statistic	Significance
a[1]	0.6355	0.1009	6.298	1
B[12]	-0.7551	0.05681	-13.29	1

Within-Sample Statistics

Sample size	72	No. parameters	2
Mean	200.28	Std. deviation	5.77
R-square	0.99	Adj. R-square	0.99
Durbin-Watson	1.96	Ljung-Box(18)	13.4 P=0.23
Forecast error	0.44	BIC	0.46
MAPE	0.16	SMAPE	0.16
RMSE	0.44	MAD	0.32
MAD/Mean Ratio	0		

Actual Values for the Most Recent 6 Periods:

Actual

2019-Nov	206.4
2019-Dec	206.3
2020-Jan	207.3
2020-Feb	206.9
2020-Mar	207.3
2020-Apr	205.1

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2020-May	202.120	202.984	203.848
2020-Jun	199.836	201.492	203.148
2020-Jul	198.091	200.509	202.927
2020-Aug	196.623	199.75	202.878
2020-Sep	195.349	199.129	202.910
QTR AVG	196.688	199.796	202.905

Railroad and Union Abbreviations

Third Quarter 2020

Railroads

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 (Also noted as CPR. Owns the U.S. Class I railroad Soo Line.)
CPSL	AAR's abbreviation for Soo Line Corporation (CP's U.S. operations including SOO, D&H, and DME.)
CSX	CSX Transportation
D&H	Delaware & Hudson (Part of Canadian Pacific's U.S. operations, included beginning 2011Q4.)
DME	Dakota, Minnesota & Eastern (Part of Canadian Pacific's U.S. operations, included beginning 2011Q4.)
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 (The largest part of Canadian Pacific's U.S. operations.)
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 Div. 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
SMART-TD	International Association of Sheet Metal, Air, Rail, and Transportation Workers - Transportation Division*
SMART-MD	International Association of Sheet Metal, Air, Rail, and Transportation Workers - Mechanical Division**
TCU	Transportation Communication International Union
TCU-Carmen	Brotherhood of Railway Carmen Division of the Transportation Communications International Union

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)
SMW	Sheet Metal Workers' International Association (see SMART-MD)
UTU	United Transportation Union (merged into SMART)
UTU-YMD	United Transportation Union Yardmaster Department (see SMART-TD)

* Represents employees formerly represented by the UTU (conductors and brakemen) and also has a separate yardmasters department.

** Represents employees formerly represented by the SMW (steel workers)