



ASSOCIATION
OF AMERICAN
RAILROADS

225693



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Senior Vice President - Policy & Economics

September 4, 2009

The Honorable Anne K. Quinlan
Acting Secretary
Surface Transportation Board
395 E Street, SW.
Washington, DC 20423-0001

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Dear Ms. Quinlan:

This submission is the AAR forecast of the fourth quarter 2009 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2009-4) *Quarterly Rail 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 fourth quarter 2009 results on the fourth quarter 2007 base, and shows the percentage changes from the previous quarter.

	<u>2009Q3</u>	<u>2009Q4</u>	<u>% Change</u>
All-Inclusive Index	99.8	99.8	0.0
Preliminary RCAF	0.998	0.998	0.0
Forecast Error Adjustment	-0.060	-0.002	
RCAF (Unadjusted)	0.938	0.996	6.2
Productivity Adjustment Factor	2.2040	2.2122	
RCAF (Adjusted)	0.426	0.450	5.6
PAF-5	2.3259	2.3329	
RCAF-5	0.403	0.427	6.0

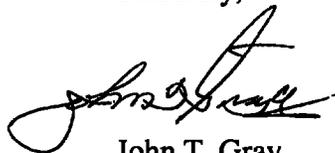
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In its October 3, 1996 decision in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation*, the STB noted its intent to publish, in addition to the RCAF (Unadjusted) and RCAF (Adjusted), an RCAF-5 (i.e., a calculation of the productivity 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.

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 Paul Aguiar 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, appearing to read "John T. Gray", written in a cursive style.

John T. Gray

Attachments

**Fourth Quarter 2009
All-Inclusive Index**

Ex Parte No. 290 (Sub-No. 5) (2009-4)

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

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

September 4, 2009

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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 fourth quarter 2009.

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 2008 (current) and 2007 (previous) weights are shown below. The previous (2007) weights were used for the fourth quarter of 2008 through the third quarter of 2009. Beginning with the fourth quarter of 2009, the 2008 weights are used. Comparing 2008 to 2007, the weight for Fuel continued to go up as expected, increasing from 20.3 to 25.2 percent. Although fuel prices were falling at the end of 2008, they were up significantly for the first half of the year, and achieved record highs. The weight for Labor decreased 2.6 percentage points, even though Labor expenses increased in 2008, because the increase in Labor expenses was dwarfed by the huge increase in Fuel expenses. All other changes in weights were by less than 1 percentage point.

RCAF Weights		
	Previous 2007	Current 2008
Labor	32.8 %	30.2 %
Fuel	20.3	25.2
Materials & Supplies	5.0	5.1
Equipment Rents	7.2	6.3
Depreciation	11.0	10.4
Interest	2.7	2.3
Other	21.0	20.5

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 Fourth Quarter 2009

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.

	2008 Weights	Forecast		Percent Change
		Previous 2009Q3	Current 2009Q4	
1. Labor	30.2%	347.2	344.8	-0.7 %
2. Fuel	25.2%	231.2	234.4	1.4
3. M&S	5.1%	255.9	238.8	-6.7
4. Equipment Rents	6.3%	192.4	197.9	2.9
5. Depreciation	10.4%	206.0	198.9	-3.4
6. Interest	2.3%	88.0	83.9	-4.7
7. Other	20.5%	191.5	198.7	3.8
8. Weighted Average				
a. 1980 = 100		251.0	251.2	
b. 1980 = 100 (linked)		245.3	245.5 ¹	
c. 4Q07 = 100		99.8	99.8 ²	0.0

Note: The 251.0 weighted average for 2009Q3 is recalculated with 2008 weights to eliminate any changes in the fourth quarter index that would be caused by changing weights. The original figure with 2007 weights is 252.7.

¹ To calculate the 1980 = 100 Linked Index:

$$\begin{aligned} \text{Index}_{80} &= (\text{Current Index} / \text{Previous Index}) * \text{the Previous Quarter Linked Index} \\ &= (251.2 / 251.0) \times 245.3 \\ &= 245.5 \end{aligned}$$

² To calculate the 4Q07 = 100 index:

$$\begin{aligned} \text{Index}_{4Q07} &= (\text{Current Linked Index} / 4Q07 Linking Factor) * 100 \\ &= 245.5 \text{ divided by } 245.9 \text{ times } 100 \\ &= 99.8 \end{aligned}$$

Indexes based on other periods:

- 4Q02 based index = 245.5 / 192.1 x 100 = 127.8
- 4Q97 based index = 245.5 / 173.2 x 100 = 141.7
- 4Q92 based index = 245.5 / 156.9 x 100 = 156.5
- 4Q87 based index = 245.5 / 132.2 x 100 = 185.7

Forecast vs. Actual All-Inclusive Index Second Quarter 2009

Because of data availability, the forecast error adjustment has a two-quarter lag from each filing. As shown below, the second quarter actual index of 94.7 is 0.2 index points below the forecast value of 94.9. Therefore, the forecast error adjustment for fourth quarter 2009 is -0.2 index points.

	2007 Weights	Second Quarter 2009		Amt Difference
		Forecast	Actual	
1. Labor	32.8%	338.3	338.3	
2. Fuel	20.3%	180.0	180.2	
3. M&S	5.0%	249.0	249.0	
4. Equipment Rents ¹	7.2%	197.0	195.1	
5. Depreciation	11.0%	199.9	201.9	
6. Interest	2.7%	88.0	88.0	
7. Other	21.0%	199.7	196.1	
8. Weighted Average				
a. 1980 = 100		240.4	239.8	
b. 1980 = 100 (linked)		233.4	232.8 ²	
c. 4Q07 = 100 ³		94.9	94.7	-0.2

Forecast error \longrightarrow **-0.2 index points**

1	2007 Weights	Second Quarter 2009	
		Forecast	Actual
Car-Hire	43.2%	182.2	182.3
Lease Rentals	56.8%	199.7	196.1
Weighted Average		192.1	190.1
Weighted Average (linked)		197.0	195.1

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

$$232.8 = 239.8 / 240.2 \times 233.2$$

³ The 4Q07 based indexes are 1980 based indexes divided by the 4Q07 linking factor (245.9/100).
 Other linking factors are: 4Q02 = 192.1; 4Q97 = 173.2; 4Q92 = 156.9; and 4Q87 = 132.2.

Productivity

On March 20, 2009, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No. 4) which modified its earlier decision that added the year 2007 to the Productivity Adjustment Factor (PAF) and deleted the year 2002. The revised decision creates a geometric average annual productivity change for 2003 through 2007 of 1.5 percent per year. The components of this average annual value are shown on the following table in ratio format – therefore, 1.015 is the same as an increase of 1.5 percent. 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			
2003 - 2007			
Year	Output Index (1)	Input Index (2)	Productivity¹ Changes (3)
2003	1.039	1.020	1.019
2004	1.033	1.057	0.977
2005	1.021	0.956	1.068
2006	1.018	1.024	0.994
2007	1.014	0.996	1.018
Average			1.015
Previous Average (2002-2006)			1.012

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 2003-2007, use fourth root of avg. productivity change = 1.0037			
For 2002-2006, use fourth root of avg. productivity change = 1.0030			
Quarter	Year	PAF	PAF-5
Q1	2009	2.1878	2.3120 ← 2002-2006
Q2	2009	2.1959	2.3189 ← 2002-2006
Q3	2009	2.2040	2.3259 ← 2003-2007
Q4	2009	2.2122	2.3329 ← 2003-2007
Q1	2010	2.2204	2.3415 ← 2003-2007

Rail Cost Adjustment Factor Fourth Quarter 2009

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 the All-Inclusive Index is on a 2007Q4=100 basis.

	Previous 2009Q3	Current 2009Q4	Percent Change
All-Inclusive Index ¹	99.8	99.8	-
Preliminary RCAF ²	0.998	0.998	-
Forecast Error Adjustment ³	<u>-0.060</u>	<u>-0.002</u>	
RCAF (Unadjusted) ⁴	0.938	0.996	6.2
Productivity Adjustment Factor ⁵	2.2040	2.2122	
RCAF (Adjusted) ⁶	0.426	0.450	5.6
PAF-5 ⁷	2.3259	2.3329	
RCAF-5 ⁸	0.403	0.427	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

Fourth Quarter 2009

The fourth quarter 2009 Labor Index is forecast to decrease 0.7 percent. Much of the decrease can be attributed to the complete amortization and removal of back pay amounts relating to last year's new UTU and UTU-Yardmasters labor agreements. [See Appendix H for common railroad and union abbreviations.]

Rebenchmarking: Rebenchmarking, as well as updating the internal weights (i.e., the proportion of labor costs represented by wages and supplements, respectively), is reflected each year in the fourth quarter filing. The Labor rate is basically a series of benchmarks from annual data that are updated each quarter using additional information such as labor agreements, payroll tax rates, health & welfare rates, and other data. By rebenchmarking to newer benchmarks, the number of quarterly updates becomes fewer – increasing the theoretical accuracy of the labor rate. The new benchmark year is 2008, and it replaces data for 2007. The 2008 data underlying the fourth quarter rebenchmarking are obtained from a summary of the railroads' 112-Class Wage Statistics and a summary of the railroads' Annual Report Form R-1 submitted to the Surface Transportation Board. The source for the wage and supplements internal weights, like the external weights, is also the Annual Report Form R-1 Summary.

Wage Rate Index

The Wage Rate Index portion of the Labor Index decreased 0.1 percent from the previous quarter. This was the net result of an increase caused by rebenchmarking combined with a decrease caused by the complete amortization and removal of back pay amounts relating to last year's new UTU and UTU-Yardmaster agreements.

Wage Increases: The base wage rate increase was caused almost entirely by rebenchmarking, with pay for time not worked having the most impact. There are no wage increases scheduled for the fourth quarter. A few independent contracts that had wage increases effective August 1 (instead of July 1) have been updated to fully reflect the August 1 general wage increase in the fourth quarter, since the third quarter average value reflected only two thirds of the increase. In addition, one new independent agreement was added to the index.

Lump Sums: Rebenchmarking caused an increase of about 0.7 cents in the Lump Sum rate. For the fourth quarter, two smaller amounts were completely amortized and removed. However one railroad's Bonus Program amount for one union, slightly higher than those removed, was added – causing a small net increase of 0.1 cent.

Back Pay: The back pay rate dropped significantly because of the complete amortization and removal of amounts related to last year's new labor agreement with the UTU and UTU-Yardmasters. The UTU is the largest railroad union based on Class I railroad employee counts. The decrease was large enough to cause a decline in the entire Wage Rate Index.

Labor

Fourth Quarter 2009

Other: Other wages contains the amortization of profit sharing payments that the BNSF Railway makes each year to its dispatchers, yardmasters, and engineers. This rate increased by one half of a cent, and the change was caused by rebenchmarking.

Supplements Index

The Supplements Index decreased 1.6 percent, caused by lower costs for Health & Welfare, Railroad Retirement, and Other fringe benefits. Rebenchmarking had little net impact on supplements.

Health & Welfare: The Health & Welfare rate decreased 1.2 percent because of rebenchmarking.

Railroad Retirement: Slightly lower taxable wages more than offset a small increase caused by rebenchmarking, and the net result was a 0.9 percent decrease in the Railroad Retirement rate.

Unemployment Insurance: The unemployment insurance hourly rate was unchanged.

Other: The "Other" category is a reflection of all other fringe benefits, and currently is known to contain employer contributions to employee 401(k) accounts and employer contributions to employee stock plans that are recorded as fringe benefits. Despite a small boost caused by rebenchmarking, the rate dropped significantly as one railroad did not have a bonus match in the latest quarter.

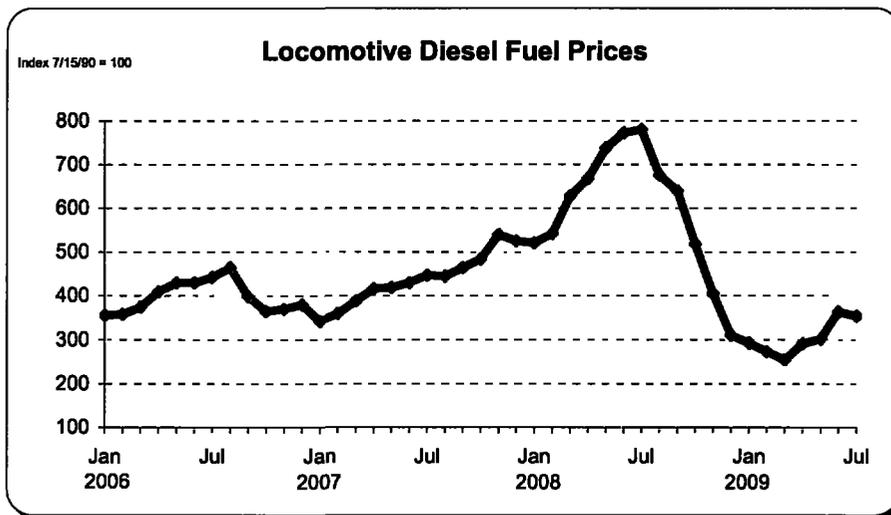
Labor Index Calculation

As shown in Table A-1 on the next page, the 0.1 percent decrease in the Wage Rate Index and the 1.6 percent decline in the Supplements Index combined to cause a 0.7 percent decrease in the Labor Index. The linked fourth quarter 2009 index of 344.8 is determined by multiplying the third quarter linked index of 347.2 times the change between the fourth quarter labor index (357.6) and a third quarter labor index (360.1) recalculated using the original third quarter wages and supplements indexes weighted with the new 2008 weights. This method eliminates changes caused by the new weights, but captures changes caused by rebenchmarking. The purpose of the center "Updated to Reflect..." column in table A-1 is only to enable the reader to discern the impact of rebenchmarking.

Fuel Fourth Quarter 2009

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.

After huge price drops in the last half of 2008, diesel fuel prices began increasing in April 2009. Since that time, fuel prices have been trending upward, although prices dipped in July. According to the Energy Information Administration (September 2, 2009), on-highway diesel fuel prices (average all-types) have *increased* for the last six consecutive weeks, while retail gasoline prices have *decreased* for the last three weeks. Crude oil spot prices* have been up and down over the last six weeks. Railroads believe locomotive diesel fuel prices will continue to increase into October 2009 (Q4), and will be about 1.4 percent higher than the forecast for the third quarter (July). This forecast is 7.4 percent higher than the actual average price paid by the railroads in July.



Forecast Fuel Index	234.4
Change from previous quarter forecast	1.4%
Change from previous quarter actual	7.4%

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

Materials & Supplies

Fourth Quarter 2009

The Materials and Supplies Index decreased 6.7 percent from the previous quarter. Decreases in the prices for metal products such as rail and wheel sets had the biggest impact, but prices for all three major categories (Forest Products, Metal Products and Miscellaneous Products) declined.

2009Q4 Materials & Supplies Index = 238.8

2009Q3 Materials & Supplies Index = 255.9

Difference -17.1 basis points
or
-6.7 %

Equipment Rents Fourth Quarter 2009

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

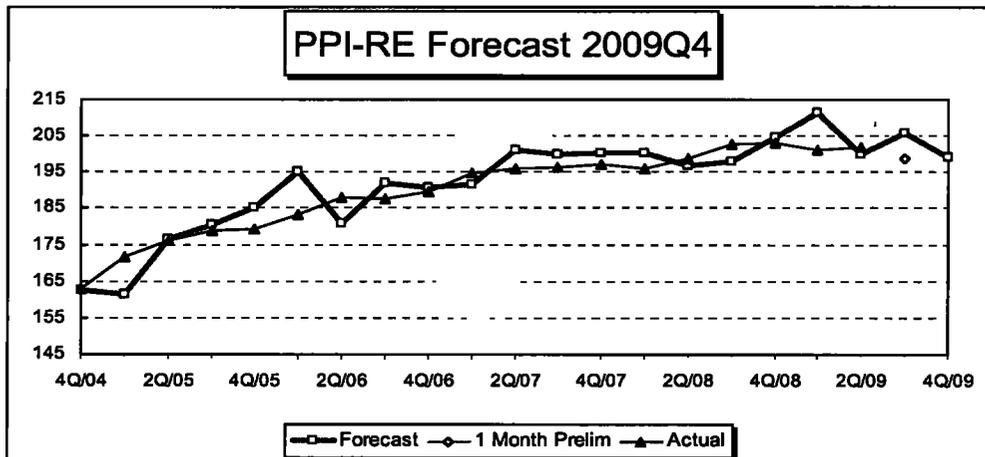
The table below calculates the Equipment Rent Index, and features new weights based on 2008. To eliminate any changes caused by the new weights, the third quarter weighted average (but not the linked value) has been recalculated using the new weights. The original third quarter weighted average using 2007 weights is 187.6. The fourth quarter Car Hire portion of the Index increased 1.7 percent because of higher rates for privately-owned tank cars. A 3.8 percent increase for the PPI-LF (See Appendix G) used as a proxy for Lease Rentals, combined with the 1.7 percent increase for Car Hire, caused the Equipment Rent Index to increase 2.9 percent.

	2008 Weight	2009Q3	2009Q4	Percent Change
Car Hire	43.9%	182.4	185.5	1.7 %
Lease Rentals	56.1%	191.5	198.7	3.8
Weighted Average		187.5	192.9	2.9
Weighted Average (Linked)		192.4	197.9	2.9

Depreciation Fourth Quarter 2009

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 reflects monthly PPI-RE figures that have been going down recently.

Forecast of Depreciation Index (1982=100)	179.8
Forecast of Depreciation Index (1980=100)	198.9
Change from previous quarter forecast	-3.4%
Change from actual first month of previous quarter	0.1%
Change from same quarter of prior year (actual)	-2.1%



Depreciation Fourth Quarter 2009

**PPI INDUSTRIAL COMMODITIES LESS FUEL
AND RELATED PRODUCTS AND POWER**

Recommended model: Box-Jenkins
Forecast Model for PPIRE
ARIMA(0,1,0)*(1,0,0)

Term	Coefficient	Std. Error	t-Statistic	Significance
A[12]	0.4015	0.1146	3.5043	0.9992

Within-Sample Statistics

Sample size 72	Number of parameters 1
Mean 165.6	Standard deviation 15.18
R-square 0.991	Adjusted R-square 0.991
Durbin-Watson 1.836	Ljung-Box(18)=16.62 P=0.4503
Forecast error 1.437	BIC 1.47
MAPE 0.005782	RMSE 1.427
MAD 0.9579	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2009-02	181.800
2009-03	181.600
2009-04	184.500
2009-05	181.500
2009-06	181.500
2009-07	179.600

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2009-08	177.145	179.961	182.778
2009-09	176.461	180.443	184.426
2009-10	175.164	180.042	184.919
2009-11	174.289	179.921	185.554
2009-12	173.263	179.560	185.857
QTR AVG	174.239	179.841	185.443

Interest Fourth Quarter 2009

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. Beginning with fourth quarter 2009, the Interest Index is based on data for 2008.

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

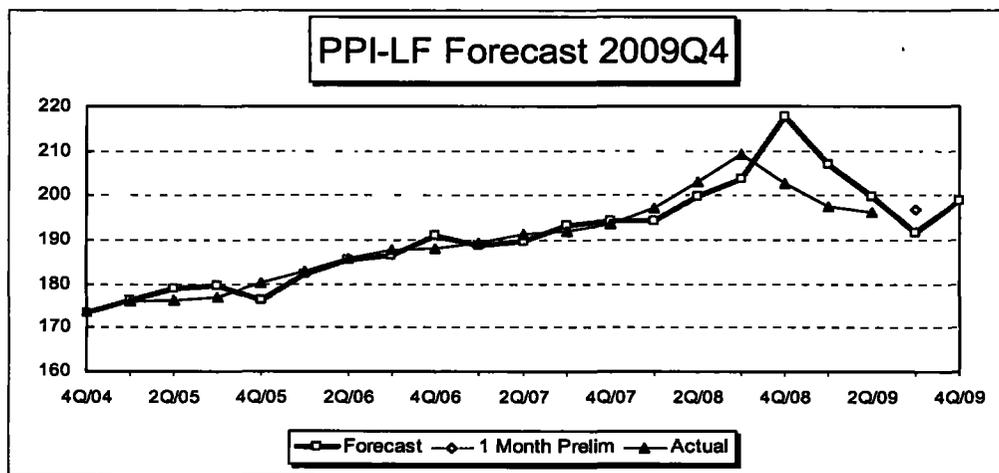
2008	Interest Rate	6.59%
1980	Interest Rate	7.85%
2009Q4	Interest Index	83.9
2009Q3	Interest Index	88.0
	Percent Change	-4.7%

Other Expenses Fourth Quarter 2009

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 for the fourth quarter reflects monthly PPI-LF figures that may have reached a trough in April, and began increasing thereafter for the first time since August 2008.

Forecast of Other Expense Index (1982=100)	177.2
Forecast of Other Expense Index (1980=100)	198.7
Change from previous quarter forecast	3.8%
Change from actual first month of previous quarter	0.9%
Change from same quarter of prior year (actual)	-2.0%



Other Expenses Fourth Quarter 2009

**PPI INDUSTRIAL COMMODITIES LESS FUEL
AND RELATED PRODUCTS AND POWER**

Recommended model: Box-Jenkins
Forecast Model for PPILF
ARIMA(0,2,1)

Term	Coefficient	Std. Error	t-Statistic	Significance
b[1]	0.0274	0.1187	0.2309	0.1819 <

Insignificant MA terms are harmless.

Within-Sample Statistics

Sample size 72	Number of parameters 1
Mean 165.1	Standard deviation 11.43
R-square 0.9959	Adjusted R-square 0.9959
Durbin-Watson 1.983	Ljung-Box(18)=21.54 P=0.7468
Forecast error 0.7276	BIC 0.7443
MAPE 0.003089	RMSE 0.7225
MAD 0.5222	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2009-02	176.100
2009-03	175.600
2009-04	174.800
2009-05	174.800
2009-06	175.200
2009-07	175.600

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2009-08	174.563	176.000	177.436
2009-09	173.223	176.399	179.576
2009-10	171.509	176.799	182.089
2009-11	169.476	177.199	184.922
2009-12	167.159	177.598	188.038
QTR AVG	169.381	177.199	185.016

Railroad and Union Abbreviations

Fourth Quarter 2009

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.)
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.)
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)