



Postal, Paper & Logistics Update

January, 2023

The USPS's latest round of price hikes kicked in this month and the Postal Service plans to implement a new change for preparation of Marketing Mail and Periodical Flats. Keep reading for more details and key developments in the postal, paper and logistics sectors since our last update.

Quad is a significant mailing industry partner, printer and transportation services provider, uniquely positioned to share accurate information on topics related to postal, paper and logistics. Our goal is to provide clarity and share best practices so our clients can more confidently address the latest developments. These are especially challenging times for our industry. Contact your Quad representative if you have any questions or concerns. They'll ask our in-house experts to investigate and share answers for all.

Postal

A significant mail preparation change will be going into effect in conjunction with the January 22, 2023 price increase. The USPS will require mailers to use flat tubs for Periodical Flats and Marketing Mail Flats. Sacks will no longer be allowed. To help minimize the impact of this change, the USPS has also introduced a new Mixed NDC pallet for Marketing Mail Flats. Periodical Flats currently have the ability to create a Mixed ADC pallet.

The Mixed NDC and Mixed ADC pallet sortation levels are an optional USPS preparation level. Based on our analysis, Quad will be requiring the use of these pallet levels in a setting of 100 pounds to reduce how much mail will need to be prepared in flat tubs. We have determined that the 100-pound setting will eliminate approximately 84% of the sacks currently being produced, which will significantly reduce the number of flat tubs that will be required.

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Quad will monitor the results of the mixed pallet settings and our initial settings for flat tray sortation to determine if additional modifications can be made to improve the preparation of mail.

For customers that are currently drop-shipping sacks, Quad will work with you to determine the impact that the new flat tub preparation will have and what changes may be required to provide the most cost-effective option.

The USPS has given mailers a 30-day transition window for this change, which will end February 21, 2023. However, any jobs that are prepared in sacks that are mailed after January 22, 2023 will require additional manual steps to release the mail to the USPS. To minimize the impact, all Quad processed jobs that are mailing after January 22, 2023 need to be prepared under the new flat tub requirements.

Miscellaneous updates:

- The USPS will do a data repair on the difference between tubs and sacks container charges.
- The USPS released the Red Fox stamp at 20 cents the first week of January: Non-Profit request.
- Jan. 29 will be the effective date for the PER CET of 8:00 AM.
- PRC approved Competitive prices.
- About the electric vehicles rollout:
 - The USPS is working with White House and Congress on a plan.
 - The first order will now be 60K NGV with 45k being electric.
 - Goal is to have all orders after 2026 being electric to get to long-term goal of 66K electric.
- USPS ACR was filed at the end of December.
- One International change – Samoa came back online at the end of December; still at 15 countries suspended.
- The USPS reached a tentative three year agreement with the National Postal Mail Handlers Union.
- Another round of Covid-19 test kits is being rolled out.

USPS delivery performance

The USPS moved mail well throughout the fall and holiday season of 2022. There were some minor delays with Flat mail in certain postal processing facilities, but overall they performed smoothly.

As we get into February and March, mail delivery should remain steady as volume will be lower. Winter storms, rain and the resulting flooding and power outages have not impacted mail delivery to a measurable degree, but that is one unknown that could affect delivery in the coming weeks and months.

The delivery performance outlook for the remainder of 2023 is somewhat uncertain due to the pending network changes within the USPS. We will monitor each of those changes closely and work with the USPS if we detect delays.

USPS volume

| Mail volume for the week ended Jan. 14, compared to last year | | |
|---|------------|---|
| Total Mail Volume | Down 6.1% | ▼ |
| Packages | Up 0.2% | ▲ |
| Single Piece | Down 5.9% | ▼ |
| Presort First Class | Down 4.7% | ▼ |
| Marketing Mail | Down 10.9% | ▼ |
| Periodicals | Up 21.0% | ▲ |

| Mail volume for the week ended Dec. 31, 2022 | | |
|--|------------|---|
| Total Mail Volume | Up 5.1% | ▲ |
| Packages | Up 30.6% | ▲ |
| Single Piece | Down 6.0% | ▼ |
| Presort First Class | Down 3.7% | ▼ |
| Marketing Mail | Down 12.9% | ▼ |
| Periodicals | Down 7.0% | ▼ |

| Mail volume for the week ended Dec. 24, 2022* | | |
|---|-----------|---|
| Total Mail Volume | Up 0.8% | ▲ |
| Packages | Up 27.7% | ▲ |
| Single Piece | Up 4.8% | ▲ |
| Presort First Class | Up 3.1% | ▲ |
| Marketing Mail | Down 8.5% | ▼ |
| Periodicals | Up 4.5% | ▲ |

| Mail volume for the week ended Dec. 17, 2022 | | |
|--|------------|---|
| Total Mail Volume | Down 16.0% | ▼ |
| Packages | Down 0.2% | ▼ |
| Single Piece | Down 8.3% | ▼ |
| Presort First Class | Down 0.8% | ▼ |
| Marketing Mail | Down 13.9% | ▼ |
| Periodicals | Down 6.3% | ▼ |

*2022 had one additional business day compared to the previous year

| Mail volume for the week ended Dec. 10, 2022 | | |
|--|------------|---|
| Total Mail Volume | Down 11.5% | ▼ |
| Packages | Up 5.0% | ▲ |
| Single Piece | Down 10.5% | ▼ |
| Presort First Class | Down 1.8% | ▼ |
| Marketing Mail | Down 11.6% | ▼ |
| Periodicals | Down 25.0% | ▼ |

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Paper Market

- As we enter 2023, the paper markets have become increasingly manageable, with paper supply available in most grades. Additionally, there are higher inventories of paper to be consumed, which will reduce operating rates at the mills through Q1 of this year.
- The proposed merger between Resolute Forest Products and Paper Excellence has received approval from the Canadian Competition Bureau. The transaction remains on course to close in the first half of 2023, subject to the satisfaction or waiver of the other conditions to the closing of the merger. (Source: press release)
- ND Paper's Biron mill in Wisconsin will convert to packaging grades early in 2023, eliminating over 20% of the coated groundwood #4 and #5 grade capacity in North America. (Source: press release)
- Pixelle Specialty Solutions will close its Androscoggin/Jay, Maine mill in Q1 2023 due to financial problems. The 230,000 tons/year mill produces specialty label and release papers, as well as industrial and packaging solutions for e-commerce and food service on two paper machines. (Source: press release)

Logistics

- Overall the freight market is very stable and Quad is able to provide good service for our customers. Diesel fuel prices, while still higher than a year ago, have been declining for the past several months. Earlier in January, the U.S. Energy Information Administration (EIA) forecast that U.S. refining margins for diesel would fall by 20% in 2023 and by 38% in 2024. The EIA said it expected retail diesel prices to average about \$4.20/gal in 2023, down 16% from 2022, and to continue to fall in 2024 to an average near \$3.70/gal.

As always, your Quad representative will work diligently to find you the lowest rates with the most efficient transportation available.

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