



Postal, Paper & Logistics Update

February, 2023

The USPS saw a 4.8% volume decline in the FY 2023 first quarter (Oct. 1-Dec. 31, 2022), as it continues to roll out its “Delivering for America” plan. The freight market remains stable despite extreme cold weather and icy roadways in many parts of the country. The paper market is steady as well.

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

Despite the Postal Service’s predictions that the 10-year “Delivering for America” blueprint would lead to break-even financial results in fiscal 2023, the USPS announced a net loss totaling \$1.03 billion for the first quarter of the year (Oct. 1-Dec. 31, 2022), on a volume decline of 1.7 billion pieces or 4.8% during what is typically its peak quarter.

That compares to a loss of \$1.55 billion in the same quarter last year.

Operating revenue grew by \$206 million or 1% to \$21.5 billion in the FY2023 quarter. Income excluding all retiree benefit costs slipped to \$187 million from \$880 million in the same period last year.

Quad

Volume declined across all service categories in the first quarter. Despite that, First Class and Package mail saw small revenue increases, thanks to higher rates.

- First-Class Mail revenue increased \$95 million, or 1.5%, on a volume decline of 587 million pieces, or 4.5%, compared to the same quarter last year.
- Marketing Mail revenue fell \$106 million, or 2.4%, on a volume decline of 879 million pieces, or 4.7%.
- Periodicals revenue dropped \$19 million, or 7.4%, on a volume decrease of 120 million pieces, or 13.0%.
- Shipping and Packages revenue rose \$203 million, or 2.4%, on a volume decline of 70 million pieces, or 3.5%.

In its earnings release, the USPS cited “the continued abatement of the pandemic-related surge in e-commerce” for the drop in Package volume. It attributed Marketing Mail volume decline to competition from digital and mobile advertising, but predicted the category would “continue to be a resilient” channel.

Commenting on the results, Postmaster General and CEO Louis DeJoy cited inflation and “an administrative environment beyond our control” as factors that undercut the Postal Services progress in cost reduction and revenue growth.

The announcement said the USPS needs Civil Service Retirement System reform “to achieve financial predictability and sustainability.” The news release also pointed to wage increases tied to inflation as one factor affecting financial results.

The USPS is preparing to announce its next round of rate hikes in mid April. If approved by the Postal Regulatory Commission (PRC) as expected, the increases will go into effect July 9. Quad’s latest guidance on the rate hikes follows, based on the six-month Consumer Price Index (CPI) rate of about 3.3% in early February.

Non-Compensatory Classes: <i>Periodicals/Packages</i>	2.0%
Non-Compensatory Product: <i>Marketing Mail Flats</i>	2.0%
Density Authority*	.936%
Retirement Authority	1.036%
Periodicals (banked from Jan. 2023 rate)	.774%
Ranges:	
Compensatory	5.272%
Non-Compensatory	
Classes and Product	7.272%
Periodicals	8.046 %

* If the \$57 billion in relief funds is included in USPS finances, the Density Authority could fall to 0.0%

Quad

The USPS Network Transformation will include replacing the current NDC & ASF network with new Regional Processing and Distribution Centers (RPDCs). The USPS is expecting to have 60 to 65 RPDCs, at least doubling the current network of just over 30 facilities. The Postal Service arrived at this number range after analyzing population, volume and distances by 3-digit ZIP codes to identify the number of originating nodes needed to flow mail and packages nationally. The list of new facilities will be refined based on the viability of existing plants, network distribution centers, employees, equipment and mail volumes.

The current SCF network will be relabeled to Local Processing Centers (LPCs). There has been no discussion with the USPS regarding changes to the number of LPC facilities. For both RPDCs and LPCs, the USPS goal will be to modernize and standardize all mail processing activities with a validation process for efficient, replicable standard work and a standardized set of sortation centers regionally and locally. Inside the plants, the network modernization for machines, yard layouts and mail flows involves:

- Optimized machine placements using engineering standards
- Analysis of the number of containers and distance traveled within the plant
- Use of time studies to establish capacity yields
- Determination of machine quantities by product line
- Creation of staffing based on volume forecasts and machine yields
- Implementation of yard management systems

Miscellaneous updates

- Two SDCs were rolled out last year — Athens, Ga. on November 19th and Brooklyn, N.Y. on November 26th. The next wave of SDC conversions is expected at the end of February: Bryan, Texas; Panama City and Gainesville, Fla.; Utica, N.Y.; and Woburn, Mass. More are expected in June.
- The Postmaster General, speaking at the Mailer's Technical Advisory Committee Meeting (MTAC) at the end of January, mentioned several locations for the new RPDCs: Richmond, Va.; North Houston, Texas; Greensboro, N.C.; Portland, Ore.; Indianapolis; Atlanta; Jacksonville, Fla.; Charlotte, N.C.; and Chicago. The earliest we would see a RPDC come on line is late summer.
- The USPS has filed for a USPS Advantage product, This would streamline and simplify package shipping options for customers, and enhance the Postal Service's ground product offering. It will replace the existing First-Class Package Service.
- There will be an AIM meeting March 7, a joint virtual meeting for the Atlantic and Southern areas.

USPS delivery performance

Winter 2023 has had some severe storms, but none have impacted mail delivery by a significant degree. An ice storm during the last week of January caused power outages, downed trees and very icy conditions throughout Texas and the Memphis, Tenn. area. The USPS did close some local delivery units for one to five days, but generally kept the mail moving throughout the region.

No processing plants have been trending late. Lower volume compared to February, 2022 is helping move mail well. If the weather does not have a significant impact, mail will continue to move well through late winter and spring.

USPS volume

Mail volume for the week ended Feb. 18, compared to last year		
Total Mail Volume	Down 15.0%	▼
Packages	Down 8.1%	▼
Single Piece	Down 9.8%	▼
Presort First Class	Down 15.1%	▼
Marketing Mail	Up 13.1%	▲
Periodicals	Down 15.2%	▼

Mail volume for the week ended Feb. 11		
Total Mail Volume	Down 16.1%	▼
Packages	Down 9.3%	▼
Single Piece	Down 23.2%	▼
Presort First Class	Down 9.5%	▼
Marketing Mail	Down 15.9%	▼
Periodicals	Down 23.5%	▼

Mail volume for the week ended Feb. 04		
Total Mail Volume	Down 15.5%	▼
Packages	Down 14.3%	▼
Single Piece	Down 5.9%	▼
Presort First Class	Down 12.4%	▼
Marketing Mail	Down 14.3%	▼
Periodicals	Down 26.0%	▼

Mail volume for the week ended Jan. 28		
Total Mail Volume	Down 5.5%	▼
Packages	Down 11.7%	▼
Single Piece	Down 13.7%	▼
Presort First Class	Down 9.8%	▼
Marketing Mail	Down 24.2%	▼
Periodicals	Down 20.2%	▼

Mail volume for the week ended Jan. 21		
Total Mail Volume	Down 12.8%	▼
Packages	Down 4.9%	▼
Single Piece	Down 6.9%	▼
Presort First Class	Down 3.8%	▼
Marketing Mail	Up 1.7%	▲
Periodicals	Down 18.7%	▼

Quad

Paper Market

The paper market remains status quo with our January update, with good paper supply in most grades. We continue to monitor the market closely.

Logistics

Overall, the freight market continues to remain stable with minimal disruptions. The recent extreme cold weather events in Texas and the Northeast did contribute to some temporary slowdowns. These are reminders that we are still in winters icy grip, and that regional weather-related challenges could pop up from time to time.

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

1 (866) 824-2869
info@quad.com
Quad.com