

# Postal, Paper & Logistics Update

June, 2023

The USPS is plowing ahead with rate increases, even as volume continues to plummet. The logistics market faces a variety of challenges, from the I-95 collapse in Philadelphia to rocky union negotiations that could impact freight capacity. The paper market remains fairly stable. Keep reading to learn more about developments in each of these areas.

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

On the last day of May, the Postal Regulatory Commission (PRC) approved USPS's latest request for Market Dominant mail rate hikes, which take effect July 9. The approved increases include a 5.378% jump in Marketing Mail rates and an 8.122% rise in the cost for mailing periodicals.

The USPS has indicated it intends to use its full authority to raise rates for the foreseeable future, despite the apparently clear impact higher rates are having on mail volume. The latest indication of that impact came when the USPS reported its results for April, the start of the third quarter of the service's fiscal year.

April operating revenue fell 3.5% for a net loss of \$641 million, making the net loss for the first seven months of the year \$4.15 billion on a volume decline of 14.2%. The April results included drops in volume for every major mail category. (The USPS noted that April 2023 has one less delivery day and one less retail day than April 2022. YTD has one less delivery day and 1.75 fewer retail days than in 2022.)

- Overall, Market Dominant mail volume fell 14.8% in April for a decline of 8.2% year-to-date (YTD)
- Marketing Mail volume dropped 18.4% in April with revenue falling 11.5% for the month, for a YTD volume decline of 9.1% and revenue slippage of 4.4%
- First Class Mail volume slid 9.3% in April, though revenue increased a slim 0.5%; volume for the YTD was down 6.7% with an 0.8% uptick in revenue.
- Competitive package volume fell 3.0% in April for a drop of 3.6% YTD; April revenue slipped 2.0% but is up 0.1% for the YTD.
- Periodicals volume declined 23.1% in April, with volume YTD down 12.7%; revenue was off 13.3% for the month, 5.2% for the year.

## Miscellaneous updates

- The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in May on a seasonally adjusted basis, after increasing 0.4% in April, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all-items index increased 4.0% before seasonal adjustment.
- The PRC shows the available rate authority (for January 2024) at 0.9%. The USPS has revised its forecast for the available January rate authority down to 1.9% from 2.0%.
- As of July 9, 2023, the USPS Ground Advantage product will have a 3.2% decrease in retail prices and a 0.7% decrease in commercial prices. The USPS Ground Advantage combines USPS Retail Ground, First-Class Package, and Parcel Select Ground services into a single ground shipping service.
- The PRC has not yet approved the competitive price filing, which is holding up finalization of required items like postage statements for Market Dominant products.
- The USPS is working on a growth incentive program to reward growth based on prior year numbers.
- International embargoes: Service is still embargoed to 13 countries, but the lineup has changed. Service has resumed to Libya, but been suspended to Myanmar (formerly Burma).

## USPS delivery performance

The USPS continues to move mail very quickly, as volume has been lower than usual. May and June are typically the lowest-volume months of the year, which means that mail has moved fast during these months. Below are the average in-home curves for the last four weeks.

Even with the speedy delivery, some postal processing facilities have been moving flat mail (catalogs and magazines) slower than they should. Those include Tampa, Fla., Springfield Mo., Montgomery Ala. and Columbia S.C. The

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delays are not long, with about 30-to-40% of the mail in-home one to two days later than the service standard.

Projections show mail moving quickly throughout most of the summer, as volume is predicted to remain low.

Quad will be watching for changes in mail processing for the remainder of this year as the USPS network changes start to be implemented. Hurricane season could also impact mail delivery, but forecasters say that this season's 'El Nino' weather pattern will keep the number of storms down.

	Week of 5/22	Week of 5/29	Week of 6/5	Week of 6/12
<b>Early</b>	22%	28%	30%	33%
<b>Day 1</b>	49%	60%	52%	58%
<b>Day 2</b>	75%	89%	80%	84%
<b>Day 3</b>	89%	95%	91%	94%
<b>Day 4</b>	96%	98%	97%	97%
<b>1 Day Late</b>	99%	99%	99%	99%

## USPS volume

Mail volume for the week ended June 10, compared to last year		
Total Mail Volume	<b>Down 13.8%</b>	▼
Packages	<b>Down 2.4%</b>	▼
Single Piece	<b>Down 9.2%</b>	▼
Presort First Class	<b>Down 1.8%</b>	▼
Marketing Mail	<b>Down 13.5%</b>	▼
Periodicals	<b>Down 26.3%</b>	▼

Mail volume for the week ended June 3		
Total mail Volume	<b>Down 14.5%</b>	▼
Packages	<b>Down 1.7%</b>	▼
Single Piece	<b>Down 11.7%</b>	▼
Presort First Class	<b>Down 5.8%</b>	▼
Marketing Mail	<b>Down 16.3%</b>	▼
Periodicals	<b>Up 4.7%</b>	▲

Mail volume for the week ended May 27		
Total Mail Volume	<b>Down 14.9%</b>	▼
Packages	<b>Down 6.1%</b>	▼
Single Piece	<b>Down 12.1%</b>	▼
Presort First Class	<b>Down 1.5%</b>	▼
Marketing Mail	<b>Down 23.0%</b>	▼
Periodicals	<b>Down 29.0%</b>	▼

Mail volume for the week ended May 20		
Total Mail Volume	<b>Down 16.9%</b>	▼
Packages	<b>Up 0.1%</b>	▲
Single Piece	<b>Down 9.9%</b>	▼
Presort First Class	<b>Down 4.2%</b>	▼
Marketing Mail	<b>Down 19.8%</b>	▼
Periodicals	<b>Down 13.1%</b>	▼

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## Paper Market

- Paper markets are stable, and paper is available with normal lead times for most grades.
- Paper producers continue to take market-related downtime to curtail supply due to reductions in paper demand this year.
- Resolute Forest Products Inc., a subsidiary of Domtar Corporation and part of the Paper Excellence Group, announced that it has an asset purchase agreement to sell its Thunder Bay, Ont. pulp and paper mill to an affiliate of Atlas Holdings. The transaction, expected to close in the second half of 2023, is subject to the satisfaction or waiver of closing conditions, including obtaining required regulatory approvals.

## Logistics

We are keeping an eye on several significant developments affecting the logistic market.

- On June 11<sup>th</sup> a tanker truck carrying gasoline lost control and caught fire under the overpass carrying Interstate 95 (I-95) in northeast Philadelphia. The extreme heat caused the northbound lanes to collapse and damaged the southbound lanes. This resulted in a roughly nine-mile closure of both directions of I-95. U.S. Department of Transportation Secretary Pete Buttigieg stated that the closure is having “an outsized impact on commuters and on goods movement up and down the I-95 corridor.”  
  
“Of the estimated 160,000 vehicles that used the section of highway that collapsed daily, about 8% were trucks carrying goods,” Buttigieg noted. “As a result, truckers will have to take a longer, and likely more costly, route to get to their destinations. And if a route is disrupted, or if it’s longer, or trucks have to wait, that finds its way into the cost of goods.”
- Pennsylvania Governor Josh Shapiro pledged to re-open the highway within two weeks of the collapse and announced that an interim fix would be in place by the weekend of June 23, with three temporary lanes in each direction. It remains to be seen how well this short-term solution will function.
- After nearly a year of negotiations and with help from the Department of Labor, a tentative six-year agreement has been reached between the **Pacific Maritime Association (PMA) and the 22,000-member International Longshore and Warehouse Union (ILWU)**. This deal cools down what had been rising labor tensions that led to port delays and shutdowns in recent weeks just as peak season for shipping begins. The agreement still needs to be ratified by the union members — which could take months according to the ILWU.
- The **Teamsters** have reached a tentative agreement with less-than-truckload (LTL) carrier **ABF** on the current five-year collective bargaining agreement that expires June 30<sup>th</sup>, 2023.

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- However, conversations between the **Teamsters and Yellow Freight** have not been going well. Yellow is chasing an initiative called “One Yellow”, which will integrate its disparate regional networks into a super-regional one. This has proved controversial because Yellow seeks to close 24 of its 300+ facilities and join them with nearby existing terminals, causing nearly 1,000 of their 6,000 line-haul drivers to be converted to “utility drivers.” The Teamsters have repeatedly rejected the consolidation of terminals and the change to any driver job responsibilities.
- Yellow is a major player in the LTL segment of the trucking industry. Yellow claims 10% of the LTL market share and is the third-largest LTL carrier overall.
- Lastly, we continue to monitor talks between the **Teamsters and UPS**. The current UPS collective bargaining agreement expires at midnight on July 31, 2023. Quad doesn't use UPS to ship customer product; however, the sheer volume of UPS deliveries couldn't be absorbed by FedEx or the U.S. Postal Service in the event of a strike, which would create delays and increase prices due to lost capacity in the logistics system. UPS ships approximately 24 million packages per day and handles roughly one-fourth of all U.S. parcel volume.

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

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