



# Postal, Paper & Logistics Update

August, 2023

This month, USPS released third quarter financials, with profits and revenue down. Also, the Postal Service's recent announcements regarding a 30% Mail Growth Incentive for 2024 continues to make news as the program goes online. Paper order lead times have been extended by two weeks for all paper grades to ensure on-time deliveries, and the busy season has begun for mill paper production. UPS and the Teamsters Union have reached an agreement after last month's negotiations.

Built on our roots as a printer, mail industry partner and logistics leader, Quad is a marketing experience company focused on delivering streamlined solutions at scale to our clients. As the largest USPS customer, we are uniquely positioned to provide clients with best practices and insights on the latest postal, paper and logistics topics. If you have any questions or concerns during these challenging times for our industry, contact your Quad representative. We'll tap our in-house experts to investigate and get you the answers you need.

## Postal

On Aug. 8, the Postal Service [released its financial report for the third quarter](#). The numbers are not trending in a positive direction two years after the release of the USPS's Delivering for America 10-year plan to secure continued viability of the agency.

The Postal Service promised in the plan that the agency would reach financial breakeven by FY 2023. Instead, USPS has lost \$5.2 billion three-quarters of the way through the year compared to a forecasted loss of \$4.5 billion for all of FY 2023.

Mail volume is down 8.1 billion pieces compared to the first three quarters of last year. Operating revenue through the third quarter of FY 2023 fell \$446 million or 0.7%. Year-to-date, USPS total revenue dropped \$353 million or 0.6%. Operating expenses are up by \$5.9 billion, or 9.9%, compared to the same period last year. USPS CFO cited labor and transportation costs among the factors driving higher expenses.

### **Third-quarter results**

- In the third quarter, USPS lost \$1.7 billion, with revenue down \$168 million or 0.9% compared to the previous year
- First-Class Mail volume dropped 678 million pieces or 5.9%, while revenue increased \$221 million or 4%
- Marketing Mail volume plummeted by 2.6 billion pieces or 16%, and revenue decreased by \$333 million, or 8.8%
- Periodicals volume fell 142 million pieces or 15.6%
- Competitive Packages volume shrank by 41 million pieces or 2.4%
- Total operating expenses were \$20.5 billion for the quarter, an increase of \$1.8 billion, or 9.6%

This report marks the last period before the July 9 rate hikes took effect. Twice-a-year price increases already implemented appear to be taking a toll on USPS mail volumes.

The commitment to continued rate hikes, which Postmaster General Louis DeJoy reaffirmed earlier this summer, despite falling mail volumes, is perplexing. The USPS reported that it had over \$21 billion in operating cash as of June 30. Regulatory rate authority can be “banked” for use at a later point when the cash is needed. As it is now, USPS is getting minimal revenue growth from the rate increases.

### **Mail Growth Incentive update**

The Postal Service’s recent announcement regarding a 30% Mail Growth Incentive for 2024 has been the attention-grabbing headline. However, the devil is in the details when it comes to qualifying for this incentive program.

The USPS filed for two separate incentive programs, one for First Class and one for Marketing Mail. You can register for both, but each incentive program has separate mail volume requirements.

When you register for the incentive, the Postal Service will look at your total mail volume between Oct. 1, 2022, and Sept. 30, 2023, across all titles and mailing locations, for each class. Then it will set your threshold volume. However, the minimum threshold is a million pieces, even if your volume was less than that during the measured period.

Only mail sent during the 2024 calendar year that exceeds the threshold is eligible for the 30% incentive.

When a mailer does exceed their threshold volumes, the Postal Service will issue credits that can be used on future mailings for that class of mail. The credits will be issued in July and October 2024, and January or February 2025. The credits will be available to use immediately on mailings in 2024 or 2025 and will expire at the end of December 2025.

You can find the Postal Service’s FAQs regarding the Mail Growth Incentives [here](#).

## **USPS-provided example for Mail Growth program**

A mail owner with a volume threshold of 4.5 million pieces mails five million pieces during 2024. The example assumes the mailer paid \$3,194,000 in postage for the five million qualifying pieces. The Postal Service calculates an average per-piece price of \$0.639 ( $\$3,194,000/5,000,000$ ).

The mailer earns credits only on the last 500,000 pieces of the five million mailed. A 30% off the average per-piece price paid equals \$95,850 ( $500,000 \times 0.639 \times 0.30$ ). When distributed across the total mailing of five million pieces, which generated \$3.2 million in revenue for the USPS, the actual, per-piece credit is only 3%.

The Postal Service has categorized the 30% Mail Growth as an incentive, which is treated differently than a promotion. This means mailers will be able to participate in all 2024 promotions and still be able to register and also qualify for the Mail Growth incentive.

Another item that mailers need to keep in mind is planning appropriately for the increase in postage costs to achieve the threshold volume. Assuming mail pieces are mailed at the same time of year as the threshold period, all mail pieces mailed from Jan. 1, 2024, to Sept. 30, 2024, will have had two price increases applied.

Because the threshold volume includes Oct. 1, 2022, to Dec. 31, 2022, any volume mailed from Oct. 1, 2024, to Dec. 31, 2024, will have had four price increases applied.

The four price changes include:

- January 2023: First Class and Marketing Mail average increases of 4.2%
- July 2023: First Class average and Marketing Mail average increases of 5.4% and 4%, respectively
- January 2024 price change (estimated ~2.0%)
- July 2024 price change (estimated ~8 to 9%)

Based on these postage increases, mailers will have experienced a significant increase in their postage spend to achieve their threshold volumes.

The Mail Growth Incentive is currently a proposed incentive that requires formal approval from the Postal Regulatory Commission. A decision by the PRC is expected in early October.

## **New CASS Cycle O requirements**

On Aug. 1 the USPS mandated the mailing industry comply with new CASS (Coding Accuracy Support System) Cycle O requirements. CASS processing is required on mailing lists to correct addresses and append the proper postal codes to qualify for presort, automation and carrier route discounts. Quad uses a mail scoring system to help customers identify which records in their files are deliverable or undeliverable based on address characteristic codes provided by the CASS software. Quad's scoring system uses this new information, and we are seeing an increased number of records being dropped out of mailing lists. Based on our analysis, the CASS software is working correctly. An example would be P.O. Boxes that are no longer rented or have been declared unrentable. Quad recommends that these records be carefully reviewed and updated before attempting to mail. Better identification of these problematic addresses will help reduce the amount of UAA (undeliverable as addressed) mail and ensure your mail piece is successfully delivered and not discarded.

## Miscellaneous updates

- No changes to the international suspension/embargo list
- USPS filed with the PRC for the Mail Growth Incentive on Aug. 11; comments are due by Sept. 11
- USPS filed with the PRC for a Market Dominant NSA with PCH on Aug. 1; comments are due Sept. 11
- The week of Sept. 18 is Postal Customer Council (PCC) Week with 55 events planned; there will be sessions on Ground Advantage and the proposed Mail Growth Incentives.

## USPS delivery performance

Through most of 2023, volume has been lower than 2022, which has resulted in good movement of the mail by the USPS. Network Distribution Center (NDC) Denver has been delayed in processing Flat mail for the last four weeks, averaging just 68% in-home by USPS Service Standard, with the remainder delivering in-home one to three days late.

All other postal facilities have been moving mail well this month.

Volume will be increasing over the next few weeks, which will start to challenge USPS systems. Tropical Storm Hilary was the first storm of the season to impact mail. The storm caused flooding and mudslides in Southern California and delayed some mail deliveries along the coast and rivers for one to three days. Tropical storms and hurricanes will remain a concern through at least September.

Mail volume is expected to increase in the next four-to-six weeks, which could cause USPS processing delays. We will also be watching for changes in mail processing later this year, as the USPS network changes start to be implemented.

The chart below shows the average in-home curves for the last four weeks.

	Week of 7/24	Week of 7/31	Week of 8/7	Week of 8/14
<b>Early</b>	21%	27%	21%	34%
<b>Day 1</b>	47%	50%	52%	65%
<b>Day 2</b>	73%	72%	75%	84%
<b>Day 3</b>	85%	86%	87%	93%
<b>Day 4</b>	93%	94%	94%	97%
<b>1 Day Late</b>	98%	97%	97%	98%

## USPS volume

Mail volume for the week ended August 12, compared to last year		
Total Mail Volume	<b>Down 7.8%</b>	▼
Packages	<b>Up 0.3%</b>	▲
Single Piece	<b>Down 7.4%</b>	▼
Presort First Class	<b>Down 2.2%</b>	▼
Marketing Mail	<b>Down 15.1%</b>	▼
Periodicals	<b>Down 17.9%</b>	▼

Mail volume for the week ended August 5		
Total mail Volume	<b>Down 9.6%</b>	▼
Packages	<b>Down 0.2%</b>	▼
Single Piece	<b>Down 7.3%</b>	▼
Presort First Class	<b>Down 0.7%</b>	▼
Marketing Mail	<b>Down 16.6%</b>	▼
Periodicals	<b>Down 6.7%</b>	▼

Mail volume for the week ended July 29		
Total Mail Volume	<b>Down 11.2%</b>	▼
Packages	<b>Up 2.8%</b>	▲
Single Piece	<b>Down 10.1%</b>	▼
Presort First Class	<b>Down 7.8%</b>	▼
Marketing Mail	<b>Down 2.3%</b>	▼
Periodicals	<b>Up 6.9%</b>	▲

Mail volume for the week ended July 22		
Total mail Volume	<b>Down 12.6%</b>	▼
Packages	<b>Down 3.9%</b>	▼
Single Piece	<b>Down 1.8%</b>	▼
Presort First Class	<b>Down 1.5%</b>	▼
Marketing Mail	<b>Down 15.1%</b>	▼
Periodicals	<b>Up 33.0%</b>	▲

Mail volume for the week ended July 15		
Total Mail Volume	<b>Down 12.4%</b>	▼
Packages	<b>Down 1.3%</b>	▼
Single Piece	<b>Down 8.4%</b>	▼
Presort First Class	<b>Down 4.1%</b>	▼
Marketing Mail	<b>Down 18.3%</b>	▼
Periodicals	<b>Down 13.8%</b>	▼

Mail volume for the week ended July 8		
Total Mail Volume	<b>Down 11.1%</b>	▼
Packages	<b>Down 1.7%</b>	▼
Single Piece	<b>Down 9.2%</b>	▼
Presort First Class	<b>Down 4.5%</b>	▼
Marketing Mail	<b>Down 16.3%</b>	▼
Periodicals	<b>Down 26.5%</b>	▼

# Quad

## Paper Market

- The union strike at the UPM Blandin, Minn. paper mill has ended. Union Paper Mill workers ratified a new three-year contract on Aug. 11, bringing an end to a 26-day strike. UPM Blandin will now undergo a “phased startup” dictated by returning demand for coated groundwood magazine papers.
- The sale of the Resolute Forest Products pulp, newsprint and directory paper mill in Thunder Bay, Ontario, has been completed. The deal between Atlas Holdings and Resolute closed Aug. 1. The Atlas affiliate, Thunder Bay Pulp and Paper Inc., is producing pulp and paper as it continues mill operations.
- Quad has extended paper order lead times by two weeks for all paper grades to ensure on-time deliveries, as we are starting the busiest season for mill paper production.

## Logistics

- The UPS and Teamsters Union reached a five-year agreement on August 22. It is too early to know the overall impact. The concern remains that this could drive up labor prices at competitors like FedEx, which might lead to higher prices in the market.
- LTL carrier Yellow Corporation filed for Chapter 11 bankruptcy protection. In the last week, two competitors (Estes and Old Dominion) have been bidding to buy Yellow’s terminals. In the LTL marketplace thus far we have not seen disruption or impact, but other LTL carriers have already started weighing price increases as capacity has started to tighten.

If you have any questions, please contact your account manager. As always, your Quad representative will work diligently to find you the lowest rates with the most efficient transportation available.

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