Quad

Postal, Paper & Logistics Update

April, 2023

The USPS has announced a new round of rate hikes, to go into effect in July, seemingly unconcerned that mail volumes have dropped precipitously in the first two months of the year. The logistics market continues to be stable from both a price and service standpoint. In the paper market, the potential for further paper mill closures or conversions is increasing as companies try to hold onto price gains.

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

Citing rising operating expenses fueled by inflation and the continuing "effects of a previously defective pricing model," the USPS filed for a new set of rate hikes on Monday, April 10. If approved by the Postal Regulatory Commission (PRC) — as is expected — the new pricing will go into effect July 9.

The proposed increases use all of the USPS's rate-setting authority. They would raise First Class Mail prices about 5.4%, including a three-cent rise in the price of a Forever stamp to 66 cents. The price for Marketing Mail Flats (catalogs) will go up 7.381%, and for Periodicals 8.152%. The price for one-ounce metered mail would increase to 63 cents, and the price to send a domestic postcard would rise to 51 cents.

Below is a breakdown of the rate changes.

Adders/Banked	
Non-Compensatory Classes: *Periodicals/Packages*	2.0%
Non-Compensatory Product: *Marketing Mail Flats*	2.0%
Marketing Mail	0.003%
Package Services	0.003%
Periodicals (banked from Jan. 2023 rate)	0.774%
CPI-U	3.406%
Density Authority*	.936%
Retirement Authority	1.036%
Rate increases	
Compensatory	**5.378%**
Non-Compensatory	
Classes and Product	**7.381%**
Periodicals	**8.152 %**

***** The industry request to wipe out the density adder because the USPS got $57 billion in relief from the Postal Reform Act was denied.

The USPS has almost no unused cap space after the price change.

Class	Remaining Cap Space (%)
First Class Mail	0.001
Marketing Mail	0.000
Periodicals	0.000
Package Services	0.002
Special Services	0.013

Quad will hold a one-day **Postal Solutions Summit** on Wednesday, April 26, to discuss the upcoming rate increases as well as strategies to mitigate rising costs. Please contact QuadEvents2@Quad.com if you would like to attend the virtual session.

While FY 2023 was supposed to be the beginning of break-even to positive net income for the USPS, the USPS's strategy of maximizing rate hikes every time it can file for increases appears to be hurting both mail volume and financial results, according to the latest USPS financials.

In the first five months of FY2023 (Oct.-Feb.), total mail volume declined 6.5% and the rate hikes have not been able to compensate. Total operating revenue slipped 0.5% during the same period compared to last year.

Quad

USPS February 2023 financial results

	February 2023	FY 23 to date
Operating revenue	-6.0%	-0.5%
Operating expenses	-7.4%	+0.9%
Total mail volume	-10.6%	-6.5%
Net Loss	($138.0 million)	($2.2 billion)

In its Fiscal 2023 Integrated Financial Plan, the Postal Service had predicted that "price increases will more than compensate for the revenue lost due to reduced volume." But the USPS has now increased its estimated losses for the year, though Postmaster General Louis DeJoy told employees in a video message in early March that "we remain on the track to break even for the 10-year period [of the "Delivering for America" plan.]"

The USPS 10-year plan assumed the agency would gain market share, revenue and profits from a reinvigorated Package Services to offset ongoing losses in mail volume. It's not happening, as package volume is falling. The February results include a 7.0% drop in Package Services volume coupled with a 6.0% dip in revenue for the category in the month. For the first five months, Package Services volume fell 3.9% while revenue slipped 0.5%.

Marketing Mail volume fell by 11.5% for the month and was down 6.8% year-to-date compared to the same periods last year (SPLY), while revenue dropped 4.5% and 3.1% respectively.

First-Class Mail volume was off 9.4% for the month compared to SPLY as revenue dipped 1.1%, and year-to-date volume was down 6.0% as revenue slipped 1.0%.

If volume falls 10% this year, USPS will be able to add 4.5% above inflation to rates in July 2024 because of the PRC "mail density" add-on. Piling large rate hikes on top of ongoing volume losses could be dire for the USPS. The growing prospect of a recession in the second half of this year worsens the outlook.

Miscellaneous updates

- The USPS is moving price break for packages to 15.9999.
- The USPS plans to buy 9,250 Ford E-Transit battery-powered vehicles starting later this year and add more than 14,000 charging stations at its facilities. The service has doubled its planned electric delivery vehicles purchases and now says it will buy at least 66,000 electric vehicles through 2028.
- In January, USPS proposed that commercial cash deposits of more than $500 be sent using registered mail, the agency's most secure mail service. The American Bankers Association (ABA) said it supports efforts to fight mail fraud but was concerned about the March implementation date, which provided banks and other businesses little time to change their processes for depositing mail cash deposits above the $500 limit.

- The USPS Office of Inspector General (OIG) found Voyager card policies to be generally adequate and in line with best practices with recommendations for some additional security steps. The Voyager Fleet Card Program provides cards to every Postal Service-owned vehicle to pay for fuel, oil and routine maintenance.

USPS delivery performance

Through late winter and now into early spring, the USPS has moved the mail at a steady pace, resulting in below average in-home curves. No postal facilities were delayed in processing Letter mail in the last month. We are unable to provide data on how they processed Flat mail due to an error in the USPS-provided data.

The continuous storms that hit California from late February through mid-March impacted mail delivery in some specific 5-digit zip codes for several days at a time. The storms also impacted our ability to deliver loads to the USPS in some parts of the state. This caused some California mail to be in-home later than planned.

Spring storms, including tornadoes, do not result in widespread mail delivery issues. Typically, these storms cause mail delivery to be curtailed for a day in a portion of a 5-digit zip code area, and only those homes that are directly impacted experience non-delivery for a longer period of time.

	March 2022	**3/13-3/16**	**3/20-3/23**	**3/27-3/30**	**4/3-4/6**
Early	16%	23%	21%	24%	26%
1st Day	40%	49%	43%	49%	49%
2nd Day	64%	72%	70%	73%	74%
3rd Day	81%	84%	82%	85%	86%
4th Day	89%	90%	89%	90%	93%

USPS performance should remain stable for the next several months as mail volume is expected to continue to be lower than in 2022, and winter storms will no longer slow transportation.

Quad

USPS volume

Mail volume for the week ended April 1, compared to last year		
Total Mail Volume	**Down 12.3%**	▼
Packages	**Down 6.9%**	▼
Single Piece	**Down 11.0%**	▼
Presort First Class	**Down 6.2%**	▼
Marketing Mail	**Down 13.8%**	▼
Periodicals	**Down 22.7%**	▼

Mail volume for the week ended March 25, compared to last year		
Total Mail Volume	**Down 11.4%**	▼
Packages	**Down 6.4%**	▼
Single Piece	**Down 7.5%**	▼
Presort First Class	**Down 5.0%**	▼
Marketing Mail	**Down 13.8%**	▼
Periodicals	**Up 1.4%**	▲

Mail volume for the week ended March 18		
Total Mail Volume	**Down 12.1%**	▼
Packages	**Down 2.4%**	▼
Single Piece	**Down 9.4%**	▼
Presort First Class	**Down 5.7%**	▼
Marketing Mail	**Down 13.3%**	▼
Periodicals	**Up 2.0%**	▲

Mail volume for the week ended March 11		
Total Mail Volume	**Down 10.7%**	▼
Packages	**Up 3.1%**	▲
Single Piece	**Down 8.0%**	▼
Presort First Class	**Down 1.5%**	▼
Marketing Mail	**Down 15.2%**	▼
Periodicals	**Down 2.6%**	▼

Mail volume for the week ended March 04		
Total Mail Volume	**Down 12.6%**	▼
Packages	**Up 2.0%**	▲
Single Piece	**Down 11.6%**	▼
Presort First Class	**Down 13.7%**	▼
Marketing Mail	**Down 7.1%**	▼
Periodicals	**Down 18.3%**	▼

Quad

Paper Market

- The Paper Excellence Group, through its wholly owned subsidiary Domtar Corp., has successfully completed its acquisition of Resolute Forest Products.
- Pactiv Evergreen will be closing its uncoated woodfree paper mill in Canton, N.C., during Q2 2023. This will eliminate a sizable volume of uncoated freesheet grades from the North American paper market.
- UPM has announced that it will close its mechanical paper machine PM6 at the company's Schongau mill in Germany. Additionally, UPM will accelerate the production stoppage at its Steyrermühl newsprint mill in Austria.
- As paper mill production operating rates have dropped in 2023, the potential for further production capacity closures or conversions has increased as mills attempt to hold onto the paper price gains since 2021.

Logistics

- Labor contract negotiations will heat up this summer at UPS and other major LTL freight carriers (TForce, Yellow, ABF) with the potential for strikes if a new contract agreement isn't reached on time. This could lead to disruptions and delays as other carriers cope with the fallout.
- Over the last two quarters, West Coast ports have regained balance. Meanwhile, talks are still ongoing for the International Longshore and Warehouse Union. The ILWU labor contract expired July 1, 2022.
- Diesel prices continue their downward trend after reaching multiyear highs in the first half of 2022. EIA expects U.S gasoline and diesel retail prices to decline in 2023 and 2024.

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