



Monthly Postal/Paper/Logistics Update

August, 2022

The U.S. Postal Service reported better-than-predicted results for the second quarter of 2022, despite higher expenses due to inflation. Delivery performance has also improved, but the July 10 postage price increases appear to be having a dramatic negative impact on mail volumes. Keep reading for more details and key developments in not only the postal world but the paper market and logistics sector 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 give 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

The USPS posted strong results for the month of June and for the entire second quarter ending June 30.

Revenue grew by \$287 million or 1.6% to \$18.8 billion and net income from operations climbed to \$59.7 billion compared to a loss of \$3 billion in the same three months last year.

But Joe Corbett, chief financial officer and executive vice president of the USPS, cautioned that the positive results were due primarily to the Postal Service Reform Act, which contributed \$59.6 billion to income from operations.

Without the law, income from operations would have been \$81 million. Once retiree health benefits expense, non-cash workers' compensation adjustments, and amortization expenses for the Civil Service Retirement System (CSRS) and the Federal Employee Retirement System's (FERS) unfunded liabilities, were figured in, the Postal Service experienced an adjusted loss of \$459 million for the quarter, compared to an adjusted loss of \$41 million for Q2 2021.

Inflation also played a role. Compensation and benefits — many tied to inflation/cost-of-living-adjustments — increased \$198 million or 1.6% in the quarter. Higher diesel fuel prices helped push highway transportation expenses up \$131 million or 10.1%. Other operating expenses, including delivery vehicle maintenance & fuel, supplies, rents and utilities rose 14.8% or \$373 million.

Looking ahead to the rest of the year, mail volumes are likely to tick up thanks to mid-term elections, which means that there will be more mail sent at the new, higher rates. This should figure into the Postal Regulatory Commission's report to Congress (due by Dec. 10) on whether changes over the last two years require the PRC to reconsider the supplemental rate authorities granted to the Postal Service.

Proposed 2022 holiday season temporary rate increases

The Postal Service has asked the PRC for temporary rate increases on specific package products for the peak 2022 holiday season, Oct. 2 through Jan. 21, 2023.

The proposed increases would cover extra handling costs to ensure a successful holiday season, the USPS said. The Board of Governors approved the planned pricing on Aug. 9.

The increases would affect these commercial and retail domestic competitive parcels:

- Priority Mail Express (PME)
- Priority Mail (PM)
- First-Class Package Service (FCPS)
- Parcel Select
- USPS Retail Ground.

International products would be unaffected. A full list of the increased prices can be found [here](#).

USPS delivery performance

We continue to see steady, good performance from the USPS.

Both Flat and Letter mail are hovering around 90% in-home by the end of the Service Standard window (Letters 96%; Flats 90%.)

However, there are more Letters delivered in-home before the end of the Service Standard window compared to Flats.

	Flats	Letters
2 days before Service Standard ends	13%	21%
1 day before Service Standard ends	60%	71%
Service Standard end date	90%	96%

First Class mail is moving at a good rate as well, hitting over 90% by Day 4 after the mail enters the system.

As volume increases late this month and into early September, we will likely start to see some slowing in the overall movement of mail.

USPS volume

As expected, the postage increases that became effective July 10 appear to have had an immediate impact on most mail volumes.

Mail volume for the week ending August 13 compared to last year:

Total Volume: **▼ 7.5%**
Packages: **▲ 2.0%**
Single Piece: **▼ 7.8%**
Presort First Class: **▼ 3.9%**
Marketing Mail: **▼ 3.3%**
Periodicals: **▼ 17.8%**

Mail volume for the week ending July 30:

Total Volume: **▼ 6.4%**
Packages: **▲ 5.1%**
Single Piece: **▼ 8.1 %**
Presort First Class: **▲ 0.6%**
Marketing Mail: **▼ 6.3%**
Periodicals: **▲ 14%**

Mail volume for the week ending July 16:

Total Volume: **▼ 2.3%**
Packages: **▲ 9.2%** (a bump thanks to Amazon's Prime Day, 7/12-13)
Single Piece: **▼ 6.0%**
Presort First Class: **▼ 10.3%**
Marketing Mail: **▼ 19.3%**
Periodicals: **▼ 51%**

Miscellaneous updates

- On Aug. 15 the USPS announced it is ending all area mail processing (AMP) studies to consolidate mail processing facilities. As part of the Delivering for America Plan the USPS will reassess the role of all processing facilities.
- On Aug. 16 the USPS filed to delay the changes to ground shipping options until sometime next year.
- The USPS plans to file a request to remove parcel return service from competitive products.
- New service standards for retail ground took effect Aug 1.
- USPS is planning to implement the previously announced price change on Jan. 22, 2023 (instead of Jan 8) for both competitive and market dominant mail.
- Seamless assessment thresholds have been increased to \$500.

PAPER

- According to Pulp and Paper Products Council (PPPC), paper mill operating rates (shipments to capacity ratio) remain high, between 96% to 99% of production capacity for all printing, writing, and newsprint grades in North America.
- Paper producers continue to announce price increases due to high costs and full order books, according to the mills. Grades included in the latest announcements for August and/or September are uncoated groundwood, coated groundwood, and newsprint.

LOGISTICS

- The logistics market continues to be relatively stable and consistent.
- The cost of diesel is another story. Diesel prices had been moving lower, but at the end of August started to rise for the first time since June. The U.S. average price jumped 20.6 cents to \$5.115 per gallon for the week of Aug. 29, the first time it had risen above \$5 since the beginning of August, according to the [U.S. Energy Information Administration](#).
- One potential problem to watch: the continuing railroad labor dispute. After negotiations came to a standstill earlier this summer, a Presidential Emergency Board was brought in to attempt to resolve difference. In mid-August the board issued a set of recommendations, but there is no indication yet that the unions and rail companies will agree. This could mean a national rail strike of 115,000 workers in the fall.

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

See how we can help.

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