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# Postal, Paper & Logistics Update

November, 2023

Business mailers continue to prepare for price increases and the new mail growth program, while the USPS fails to meet its break-even goal for FY2023. Paper producers face cost challenges from higher labor, fuel, and energy costs, while pulp prices are on the rise. Logistics is still quiet going into the holiday season, with the LTL, truckload and rail markets performing well.

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

In the fiscal year 2023, ended September 30, the Postal Service reported a loss of $6.5 billion. This outcome contrasts with the agency's initial goal of breaking even, as outlined in the original Delivering for America Plan. It also exceeds the revised projection of an annual loss of $4.5 billion published a year ago.

FY2023 operating revenue slipped 0.4% to $78.2 billion. Packages and First Class Mail were the only mail service categories to see revenue increases (+1.0% and 2.1%, respectively) for the year. But all categories experienced volume declines, with Marketing Mail posting the steepest drop, 11.4%.

The USPS blamed the Marketing Mail decreases on “commercial mailers’ increasing use of digital and mobile advertising, an overall decline in advertising spending due to economic pressures, and a higher inflationary environment affecting print media production costs.” It did not mention the impact of consecutive twice-a-year postage rate increases.

The USPS’s financial condition is such that it said “to preserve liquidity” it had failed to make full payments of $3.0 billion and $2.1 billion towards its Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) obligations in FY2023.

Here is an overview of the financial results.

- Overall revenue saw a modest increase of $513 million or 0.6%.
- First-Class Mail volume decreased by 3 billion pieces, a 6.1% reduction as revenue rose by $151 million or 2.1% to $24.5 billion.
- Marketing Mail volume decreased by 7.7 billion pieces, down 11.4%, as revenue fell $920 million or 5.8% to $15.1 billion.
- Periodicals volume decreased 407 million pieces, an 11.9% drop, with revenue falling by $37 million or 3.9% to $918 million.
- Shipping and Packages volume decreased by 175 million pieces, a 2.4% drop, with revenue rising $324 million or 1% to $31.6 billion.

The USPS said it was working to improve financial results by managing costs within its control such as reducing work hours by 28 million in FY2023 and decreasing transportation costs by optimizing its network.

For the fiscal year 2024, which began October 1, the Postal Service, with the approval of its Board of Governors, has projected a loss of $6.2 billion.

To minimize the projected loss in fiscal year 2024 to $6.2 billion, the Postal Service aims to increase revenue from Shipping and Packages by $2.016 billion, a significant 6.4% increase from the previous year's 1% gain. The agency anticipates raising its total revenue (vs. operating revenue) from $79.3 billion to $81.7 billion, an increase of $2.4 billion or 3%. It expects a $542 million increase in First-Class Mail revenue, which will be partially offset by a $518 million decrease in Marketing Mail revenue. Additionally, the USPS plans to further reduce work hours by 24 million, or 2.1%, in fiscal year 2024.

Despite these plans, the projected loss of $6.2 billion is concerning, especially as it relies heavily on a significant increase in package delivery revenue, a sector that has shown limited growth. The competitive pricing environment and excess delivery capacity suggest challenges ahead.

At a recent open meeting, several USPS Governors acknowledged for the first time that the Delivering for America plan has not met its objectives and may require adjustments. However, they appeared to support Postmaster General Louis DeJoy’s strategy, with one member commenting on the lack of alternatives.

A critical issue not addressed by the Board of Governors is the impact of semi-annual rate increases above inflation on Market Dominant Mail users. These increases are contributing to a significant reduction in mail volume, which is counterproductive for an organization that benefits from economies of scale. In fiscal year 2023, total USPS volume decreased from 127.4 billion to 116.1 billion, a decline of 11.3 billion pieces or 8.9%.

The USPS filed for their Competitive price change to be implemented at the same time as the Market Dominant filing, currently under review by the Postal Regulatory Commission.

In November, registration for the USPS 2024 30% mail growth incentive programs for First Class and Marketing mail will open. Customers should do their homework prior to registering, as they will need to know all the Customer Registration Identification number (CRID) that they use for mailing. Customers should also know what their mail volume was from October 1, 2022, through September 30, 2023. Part of the registration process will require users to confirm the mail volume that will be used as the threshold amount for the incentive.

## Miscellaneous updates:

- The USPS Board of Governors met on November 14 with an open session.
- Quad's Robert Schimek was named to the Board of Directors for the National Postal Forum.

## USPS delivery performance

We are currently not experiencing the USPS performance issues that were the norm in past years. Volume had typically caused the delivery of mail to slow during 'fall peak' (October through early December). Since volume is down 15% to 20% over last year, the USPS has been able to move the mail at a good pace, overall. The first week of November did see a slower start to in-home curves, but still hit nearly 95% in-home by the end of the target window.

| | Week of 10/16 | Week of 10/23 | Week of 10/30 | Week of 11/6 |
|---|---|---|---|---|
| **Early** | 22% | 26% | 25% | 14% |
| **Day 1** | 49% | 55% | 51% | 37% |
| **Day 2** | 73% | 79% | 80% | 71% |
| **Day 3** | 89% | 90% | 91% | 87% |
| **Day 4** | 95% | 96% | 96% | 94% |
| **1 Day Late** | 98% | 97% | 98% | 98% |

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No postal facilities were delayed in processing Letter mail over the last four weeks. The facilities listed below did have delays in processing Flat mail. It should be noted that the delayed mail was only delayed one to two days past Service Standard. In previous years we would see much longer 'tails' to the mail.

| Entry Type | City | State | In-Home by Service Standard % |
|---|---|---|---|
| NDC | ST. LOUIS | Mo. | 35.97% |
| SCF | CHARLESTON | S.C. | 60.42% |
| SCF | EUGENE | Ore. | 46.25% |
| SCF | FT MYERS | Fla. | 58.53% |
| SCF | KANSAS CITY | Mo. | 49.41% |
| SCF | MIAMI | Fla. | 65.06% |
| SCF | MISSOULA | Mont. | 1.36% |
| SCF | NORFOLK | Va. | 57.81% |
| SCF | PROVO | Utah | 16.15% |
| SCF | RAPID CITY | S.Dak | 44.41% |
| SCF | ROCKY MOUNT | N.C. | 21.61% |
| SCF | SAINT LOUIS | Mo. | 68.35% |
| SCF | SOUTH SUBURBAN | Ill. | 66.68% |
| SCF | SPRINGFIELD | Mo. | 42.36% |
| SCF | WATERLOO | Iowa | 65.61% |

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## USPS volume

| Mail volume for the week ended November 11, compared to last year | | |
|---|---|---|
| Total Mail Volume | **Down 19.5%** | ▼ |
| Packages | **Down 2.9%** | ▼ |
| Single Piece | **Down 2.2%** | ▼ |
| Presort First Class | **Up 1.4%** | ▲ |
| Marketing Mail | **Down 6.1%** | ▼ |
| Periodicals | **Down 8.5%** | ▼ |

| Mail volume for the week ended November 4 | | |
|---|---|---|
| Total mail Volume | **Down 18.8%** | ▼ |
| Packages | **Up 4.7%** | ▲ |
| Single Piece | **Down 10.4%** | ▼ |
| Presort First Class | **Down 7.3%** | ▼ |
| Marketing Mail | **Down 19.2%** | ▼ |
| Periodicals | **Down 6.8%** | ▼ |

| Mail volume for the week ended October 28 | | |
|---|---|---|
| Total Mail Volume | **Down 19.6%** | ▼ |
| Packages | **Up 8.3%** | ▲ |
| Single Piece | **Down 13.4%** | ▼ |
| Presort First Class | **Down 6.2%** | ▼ |
| Marketing Mail | **Down 27.8%** | ▼ |
| Periodicals | **Down 4.0%** | ▼ |

| Mail volume for the week ended October 21 | | |
|---|---|---|
| Total Mail Volume | **Down 19.7%** | ▼ |
| Packages | **Down 22.2%** | ▼ |
| Single Piece | **Down 11.4%** | ▼ |
| Presort First Class | **Down 3.6%** | ▼ |
| Marketing Mail | **Down 23.4%** | ▼ |
| Periodicals | **Up 23.6%** | ▲ |

| Mail volume for the week ended October 14 | | |
|---|---|---|
| Total Mail Volume | **Down 16.6%** | ▼ |
| Packages | **Up 8.4%** | ▲ |
| Single Piece | **Down 10%** | ▼ |
| Presort First Class | **Down 6.7%** | ▼ |
| Marketing Mail | **Down 26.3%** | ▼ |
| Periodicals | **Down 24.6%** | ▼ |

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## Paper Market

Paper producers face challenges from higher labor, fuel and energy costs. While pulp prices had fallen considerably in prior months, they are on the rise again due to depleted inventory levels.

UPM will permanently close its Plattling paper mill in Germany later this month. This mill employed 520 people and had produced coated groundwood and SCA grades of paper since 1982.

Curtailment of paper production at the Paper Excellence Catalyst paper mill in Crofton, B.C., will be extended through the end of November. We expect further paper mill closures and/or conversions to other grades in the coming year as market conditions dictate.

## Logistics

The Logistics market continues to perform well, with no concerns to point out. Even with the Yellow Corporation bankruptcy this summer, the LTL market has been performing decently. Truckload and rail markets are also performing nicely, and diesel prices are currently stable.

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

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