Quad

Postal, Paper & Logistics Update

June, 2024

In brief: Postal regulators approved the Postal Service's request for new rates, meaning the cost of mailing will be increasing for the second time this year starting July 14. At the same time, regulators expressed concerns about the sustainability of Postal Service pricing strategies. The Postal Service also reported second-quarter earnings that showed continued losses on growing revenue. Mailers should also be aware of upcoming deadlines for participating in incentive programs. Meanwhile, some headwinds are ahead for the logistics sector, while paper markets continue to stabilize.

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

Postal regulators approve second rate increase for 2024, express concerns

Another round of rate increases is on the way for customers of the U.S. Postal Service in 2024, even as regulators express concern about their widespread effects on the financial health of the U.S. mail system.

In a May 30 order, the Postal Regulatory Commission approved a new across-the-board rate schedule, to take effect July 14. The Postal Service had requested the new rates in a filing April 9.

The July 14 adjustments represent the second rate increase for 2024 and the third time in the last four years that the Postal Service has hiked rates twice within the same calendar year.

While the Regulatory Commission said it found “no legal basis” to reject the request, the panel said it “strongly encourages the Governors to consider exercising their business judgment, consistent with statutory and regulatory requirements, not to increase rates by the full amount permitted by law.”

As one of the largest customers of the Postal Service, Quad has conducted an extensive analysis of the April 9 filing based on our postal data warehouse to examine the impact on commercial mailers. Our review suggests that the average rate increase may vary greatly compared to the USPS class level filing averages of 7.75% or 9.75%, depending on the category of mail involved.

Individual clients may see percentage changes that are either higher or lower depending on the type of mail, where it’s being sent, weight and other factors. For instance, nonprofit marketing mail flats could see increases of as much as 17%, according to Quad’s analysis.

However, increases for heavy marketing mail flats could also be 2% or less based on enhanced drop-ship discounts. The Postal Service argues that it needs to raise new revenue as part of its ongoing “Delivering for America” 10-year modernization plan due to inflation and other macroeconomic factors.

Commissioners indicated that they had received comments during the ratemaking case that “presented a number of reasons why rate increases below the legal limit may be appropriate for business and public policy reasons.” In addition to rate increases happening with greater frequency, the regulators said, impacts from the January 2024 rate hikes have not yet fully taken effect, while the Postal Service is showing historic declines in service performance and efficiency.

“The Commission is concerned, given the current state of affairs, that the Postal Service’s proposal does not reflect reasoned consideration of the potential widespread effects of its proposal, is not prudent, and is not consistent with the best interests of all stakeholders.” The order adds: “This combination of stressors may be unprecedented in the history of the Postal Service.”

The comments from the Postal Regulatory Commission echo concerns from marketers and other commercial mailers, who say the increases are making mailing costs unsustainable and pushing overall mail volumes into a downward spiral. Since 2021, commercial mailers have experienced compound rate increases of between 29% and 83%.

Quad is eager to help clients find solutions to offset Postal Rate hikes and maximize all aspects of their mailing programs. If you have additional questions, please contact your sales representative.

Volumes decline, losses continue for USPS during second quarter

The U.S. Postal Service reported a $1.5 billion net loss during the second quarter of the government’s fiscal year (ended March 31) while generating more revenue on lower volumes amid ongoing rate hikes.

The $1.5 billion loss, under generally accepted accounting principles, compares to a net loss of $2.5 billion for the fiscal second quarter of 2023 and includes items the USPS says are out of its control, such as unfunded retiree pension liabilities.

Adjusting for those items, the Postal Service said its "controllable" net loss was $317 million for the quarter, compared to a $498 million controllable loss in the same quarter a year ago.

Revenue increased 2.1% for the quarter to $19.7 billion, up $410 million, as the USPS continues increasing postage rates twice a year. While revenue was up, total volumes were down on a net basis by about 600 million pieces, or just over 2%.

One notable piece of good news: Revenue from shipping and packages increased $89 million or 1.2% as volumes also grew. Customers sent 25 million more packages and shipments during the quarter compared to 2023. USPS officials attributed the growth to the increased popularity of the Ground Advantage service.

New rates proposed for USPS Parcel Select

In a separate rate case filed May 10, the Postal Service is asking regulators for a new rate schedule for its Parcel Select service, which targets large and medium-sized parcel shippers.

If approved, rates for that service would increase on average by about 25%, effective July 14. The Postal Service is not seeking an increase for USPS Ground Advantage, Priority Mail or Priority Mail Express.

According to the USPS, Parcel Select mailers pay postage that reflects the degree of work-sharing they do in presorting their parcels and/or drop-shipping their pieces at a destination facility located closer to the delivery point.

Mailers are responsible for transporting their Parcel Select pieces to a destination bulk mail center (DBMC), destination sectional center facility (DSCF), or a destination delivery unit (DDU) for business and residential delivery.

Senators ask Postal Service Board of Governors for action

U.S. Sen. Tammy Baldwin of Wisconsin, along with six other Democratic senators, wrote the Postal Service Board of Governors on April 23 to express concerns about the Delivering for America Plan, and specifically about the negative impacts of continued rate increases.

In the letter, the seven senators said that execution of the plan has triggered "diminished quality of customer service, unsustainable postage increases, and drastic declines in businesses whose commerce relies on USPS."

Citing the Postal Service's own data, the group noted that mail volumes have declined by 12 billion pieces since 2020, bringing total volumes to a four-decade low. The senators called on the Board of Governors to intervene and halt the plan.

Co-signers include U.S. Senators Ron Wyden of Oregon, Martin Heinrich of New Mexico, Tammy Duckworth and Dick Durbin of Illinois, Amy Klobuchar of Minnesota and Peter Welch of Vermont.

Senate committee questions Postmaster General, other Postal Service leaders

On April 16, Postmaster General Louis DeJoy and three other senior leaders of the Postal Service testified before the U.S. Senate Homeland Security and Governmental Affairs Committee about current financial and service issues. You can watch the hearing here.

Quad

Joining DeJoy on the panel were Roman Martinez IV, Chairman, U.S. Postal Service Board of Governors; Michael Kubayanda, Chairman, Postal Regulatory Commission; and Tammy Hull, Inspector General, U.S. Postal Service Office of Inspector General.

Separately, DeJoy has met with and discussed local USPS customer service problems with legislators from California, Virginia and Georgia.

New Study Questions USPS Pricing Models

A leading economic analysis firm has found "numerous shortcomings" in the methodology used by the U.S. Postal Service to support its rate hike requests.

NDP Analytics, in a study funded by PostCom and the Greeting Card Association, criticized the Postal Service for "increasingly unreliable forecasting." The study also questioned assumptions on how mail customers would respond to continued rate hikes.

"Ignoring customer sensitivity to price may boost revenue in the short run but may threaten USPS solvency in the long run. That is because USPS customers who reduce or eliminate mailings are less likely to return," NDP writes.

Click to download the full NPD Analytics report.

Mail Growth Incentive program deadline approaches

Here's a timely reminder about an impending deadline for participating in the 2024 Mail Growth Incentive program. The Postal Service says that customers must register on or before June 30 — but more significantly, both the mailer and Postal Service must agree on an individualized baseline prior to that date.

The program provides postage credits to mailers based on their growth over fiscal year 2023 baselines. Any baselines not agreed upon, and registrations not completed by June 30, will be ineligible to participate.

According to the Postal Service reminder:

- Registration for the First-Class Mail and Marketing Mail Growth Incentives is to be completed in the Mailing Promotions Portal, accessed through the Business Customer Gateway.
- Once registration is initiated, a Service Request (SR) is opened and all communications between registrant and USPS need to occur within the Service Request.
- Registrants should promptly review the baseline volume and associated CRIDs shown within the registration Service Request, which is accessible in the Related Tab.
- If the volume and CRID information match the mail owner's records, the registrant should click on the "I agree" button to complete the registration process.
- If the information does not match, or the mail owner would like to discuss further, they should click the "I Disagree" button in the SR.

For more information and to register, visit the first-class mail and marketing incentives page at PostalPro

Quad

USPS performance update

Overall, USPS performance has looked “good” for the last two months. In fact, we have seen some very high “early” numbers. This is not atypical for late spring/early summer, when volume in the USPS is at the lowest — and of course, this year’s volume has dropped over last year due to postage increases. We expect this generally “good” performance to continue through June.

	Week of 5/6	Week of 5/13	Week of 5/20	Week of 5/27	Week of 6/3
Early	25%	26%	32%	20%	32%
Day 1	47%	50%	62%	58%	59%
Day 2	67%	72%	83%	80%	78%
Day 3	81%	87%	91%	90%	88%
Day 4	91%	95%	96%	95%	94%
1 Day Late	95%	96%	98%	96%	96%

Although the nationwide averages look good, there are some delays in certain parts of the country — those areas that have been impacted by the “Delivering for America” USPS network changes. Quad sent a “USPS Service Performance Delay Alert” on May 3. This Alert explained in more detail what these network changes have been and what to expect in the next two years. If you did not get this alert, please contact your Quad representatives to ensure you receive future USPS alerts from Quad.

Since we sent the May 3 alert, Postmaster General DeJoy has announced a halt to further changes to work through issues raised by Senators and the Postal Rate Commission. They are only halting anything beyond those currently in process, so expect to see rollouts in several areas over the coming months.

A major cause for concern this year, related to network changes, has been the new RPDC (Regional Processing Distribution Center) in Palmetto, Georgia, which opened in late February. This facility essentially “replaced” NDC Atlanta. From its opening through April, mailers experienced serious delays. We still see some issues with flat mail on NDC level pallets, SCF Atlanta pallets and SCF North Metro pallets. Approximately 25-30% of mail for the Atlanta area is delayed. Most late mail is in-home a few days later than the Service Standard, but 5 to 10% is in-home up to a week or more beyond the Service Standard. All other mail in that region seems to be moving at a good pace. We continue to share the issues we find with the USPS, which reports that it is continuing to work through problems in that region. We are hopeful that improvement will come soon.

In addition to the Atlanta area, there are what we call “pop-up delays” in locations throughout the country, rather than a specific trend. For example, a facility may be delayed for a few days, but then not again for weeks. We believe that the USPS is working “behind the scenes” to prep other facilities for the new network plan and that these changes are causing delays. Some areas exhibiting these issues include Memphis, Chicago, eastern Maine and parts of Florida. We will continue to monitor for delays and inform you here and occasionally in special alerts if we see a serious trend of late mail. Our IMsight mail tracking service allows mailers to see how mail is moving through the system and allows us the opportunity to attempt to help by working with the USPS when we see delays. If you are interested in tracking your mail as we move into the fall season, please contact your Quad sales representative for information.

USPS volume

Mail volume for the week ended May 25, compared to last year		
Total Mail Volume	N/A	
Packages	N/A	
Single Piece	**Down 5.5%**	▼
Presort First Class	**Down 2.4%**	▼
Marketing Mail	**Up 4.6%**	▲
Periodicals	**Up 0.1%**	▲

Mail volume for the week ended May 18		
Total Mail Volume	N/A	
Packages	N/A	
Single Piece	**Down 1.8%**	▼
Presort First Class	**Up 7.9%**	▲
Marketing Mail	**Up 3.7%**	▲
Periodicals	**Down 25.0%**	▼

Mail volume for the week ended May 10		
Total Mail Volume	N/A	
Packages	N/A	
Single Piece	**Down 1.8%**	▼
Presort First Class	**Up 7.9%**	▲
Marketing Mail	**Up 3.7%**	▲
Periodicals	**Down 25.0%**	▼

Mail volume for the week ended May 3		
Total Mail Volume	**Down 5.5%**	▼
Packages	**Up 1.8%**	▲
Single Piece	**Down 6.7%**	▼
Presort First Class	**Down 1.9%**	▼
Marketing Mail	**Up 4.7%**	▲
Periodicals	**Up 5.4%**	▲

Mail volume for the week ended April 27		
Total Mail Volume	**Down 7.9%**	▼
Packages	**Up 3.7%**	▲
Single Piece	**Down 11.1%**	▼
Presort First Class	**Down 4.3%**	▼
Marketing Mail	**Down 6.7%**	▼
Periodicals	**Down 7.0%**	▼

Mail volume for the week ended April 20		
Total Mail Volume	**Down 3.8%**	▼
Packages	**Up 2.8%**	▲
Single Piece	**Down 5.6%**	▼
Presort First Class	**Down 4.4%**	▼
Marketing Mail	**Down 5.3%**	▼
Periodicals	**Down 15.4%**	▼

Mail volume for the week ended April 13		
Total Mail Volume	**Down 4.9%**	▼
Packages	**Up 3.7%**	▲
Single Piece	**Down 3.6%**	▼
Presort First Class	**Down 4.5%**	▼
Marketing Mail	**Down 4.8%**	▼
Periodicals	**Down 15.1%**	▼

Mail volume for the week ended April 6		
Total Mail Volume	**Down 6.0%**	▼
Packages	**Down 0.8%**	▼
Single Piece	**Down 9.9%**	▼
Presort First Class	**Down 0.1%**	▼
Marketing Mail	**Down 6.9%**	▼
Periodicals	**Down 32.7%**	▼

Quad

Paper Market

Not much has changed in the paper market since our last update. North American demand for printing grade papers has improved thus far in 2024 relative to 2023, and paper producers are reporting stronger order books in most grades. Paper mill operating rates have improved year to date and are averaging 6% higher versus the same period last year. The mills seem more apt to remove capacity than to allow prices to slip any further. As we head toward our busy print season, paper-order lead times will increase. It is important to provide accurate demand forecasts and firm orders earlier as we manage paper supply with fewer suppliers.

Logistics

The U.S. freight market continues to be stable; however, external events could create problems.

Cargo owners have been advised to make contingency plans for a strike at U.S. East and Gulf Coast ports that could hit traffic flows as early as Oct. 1, right in the peak shipping season. The six-year labor contract between the International Longshoremen Association (ILA) and United States Maritime Alliance (USMX), covering ports on the Eastern U.S. coastline, is set to expire Sept. 30.

The ILA represents about 45,000 port workers, while the USMX speaks on behalf of the terminal operators at 46 ports from Maine to Texas. Similar to the potential strike at West Coast ports in 2023, the impact would be felt almost immediately and would create disruption in all modes of transportation across the entire country quickly. Quad will continue to monitor these situations closely.

Lastly, Quad constantly monitors mode and carrier selection seeking the best possible performance for our customers. This month, Quad is switching our primary parcel delivery carrier from FedEx to UPS. FedEx had well publicized service issues during the COVID-19 pandemic, and UPS published better transit times than FedEx during the peak shipping season of 2023. UPS is very well positioned to service Quad’s customers at the levels expected.

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

