Mailers Hub News

July Summary *From the July 3, 17, and 31 issues*

PRC Rebuffs USPS Objections to Plan Inquiry

In an order issued June 21, the Postal Regulatory Commission denied a Postal Service motion that Docket PI2023-4, *Public Inquiry on Changes Associated with the Delivering for America Plan*, be withdrawn.

As members of the commercial mailing industry know, Postmaster General Louis DeJoy released his 10-Year Plan in March 2021, announcing future increased prices; reduced service standards; revised processing, transportation, and delivery networks; and changes to the agency’s administrative structure. Though The Plan alleged it had been concocted with input from “stakeholders,” presumably including commercial ratepayers and their representative groups, no evidence of such prior involvement was ever found.

Implementation of The Plan over the ensuing two years has included four sizeable price increases, reduction in service standards for First-Class Mail (ignoring the advisory opinions of the PRC), and the first steps in reworking processing and delivery operations. Over this period, little information has been provided to customers other than that they should expect semi-annual price increases for the foreseeable future.

By cleverly socializing The Plan as simply a statement of strategy, then disaggregating its functional components into mere “initiatives,” the USPS has sought to avoid giving the commission (or the public) enough specific information on which to base an official inquiry.

Meanwhile, to the displeasure of the mailing industry, the Postal Regulatory Commission has remained passive, aside from issuing four advisory opinions and reviewing the price increases filed by the USPS. That changed, however, on April 20 when it opened a public inquiry docket (PI2023-4) to solicit public input – not on the whole Plan, but on that part related to sorting and delivery centers. As the PRC explained:

“... the Commission notes that stakeholders have expressed concerns regarding a lack of a forum to explore the impacts of these proposed changes. ... The instant docket is not intended as an advisory opinion process on the Postal Service Strategic Plan. However, the Commission finds it beneficial to the interest of transparency to provide a forum to learn more about these strategic plan initiatives that may have a significant impact on the postal community. Accordingly, the Commission opens this Public Inquiry to provide a forum to seek additional information about the planned S&DCs, as well as other planned initiatives associated with the Postal Service Strategic Plan.”

Despite the clearly narrow focus of the docket, the Postal Service quickly and vehemently responded in opposition. On May 5, the Postal Service filed a “motion for reconsideration” urging the commission to withdraw the inquiry docket. Signed by the Postal Service’s General Counsel himself, the 33-page motion challenged the PRC’s authority to conduct an inquiry:

“... Order No. 6488 purports to initiate a forum to explore the inner workings of the Postal Service’s strategic plan, *Delivering for America* (‘Plan’), but fails to identify a statutory basis that would establish the Commission’s authority for this unprecedented level of review and oversight. No such basis was identified because no such basis exists. ... The Commission lacks authority to initiate this Docket. The Postal Service, therefore, respectfully requests that the Commission reconsider and withdraw Order No. 6488, as it is based on a material error of law.”

As observers know, the PMG views the PRC and the statutory processes it’s obligated to follow as bureaucratic impediments to his Plan, and has openly questioned the commission’s role and very existence. For example, in remarks at the National Postal Forum referring to the commission’s inquiry, DeJoy asserted that “you don’t have to protect the American people from the Postal Service.”

In its 13-page ruling denying the USPS motion, the commission did its best to soothe the overwrought concerns of the Postal Service while affirming its intent to proceed.

“As an initial matter, the Commission finds that the Postal Service’s Motion is premature. The Commission has merely opened a docket, creating a forum to learn more about strategic plan initiatives that may have a significant impact on the postal community. The Commission has not issued any orders or directed the Postal Service to take any action in this proceeding. By opening this inquiry, the Commission has not required the Postal Service to delay the implementation of any DFA Plan initiatives or required the Postal Service to postpone further strategic planning. ... “As to the Commission’s authority with respect to conducting this inquiry, [statute] grants the Commission general authority to take any action that is ‘necessary and proper’ to carry out its ‘functions and obligations’ under Title 39 of the United States Code. Although the Postal Service acknowledges that this authority is broad, the Postal Service argues that [statute] does not allow the Commission to open this docket because this inquiry is not related to another Title 39 provision. ... The Postal Service is mistaken. ...

“The Postal Service appears to misunderstand the scope of this docket. The Commission reiterates that this docket is not intended as an advisory opinion process on the entire DFA Plan. ... Nor is it intended to be a comprehensive review of the entire plan. In opening this docket, the Commission did not express any intent to review areas of the DFA Plan beyond its authority. ...

“However, since Order No. 6067 was issued in December 2021 [dismissing a complaint by several states that the USPS failed to seek an advisory opinion from the commission about the Plan], specific and new aspects of the DFA plan related to potential changes in the nature of service and cost implications warrant further exploration and fall squarely within the scope of the Commission’s authority. ... Further, it is unclear how these changes would impact costs or services, or if they implicate the Postal Service’s compliance with certain statutory provisions such as those relating to service performance or the requirement to seek an advisory opinion. ...

“At this time, it is unclear whether these examples and other DFA Plan initiatives will require any further Commission action other than the issuance of information requests. ... However, where planned and implemented initiatives may implicate Commission oversight, the Commission must ensure these initiatives comply with statutory and regulatory requirements....

“The Commission acknowledges that the Postal Service has some discretion in determining when matters are presented to the Commission for review. However, in multiple recent instances, the Commission learned about the deployment of new facilities from media statements or learned about potential changes in the nature of services while conducting another proceeding. These instances underscore the importance of the Commission acting proactively in seeking information to determine whether Commission action is required. Doing so is both necessary and proper and hence is authorized under 39 USC § 503.

“Accordingly, the Postal Service’s Motion to reconsider Order No. 6488 and withdraw this docket is denied.”

PRC Allows Questions About First-Class Package Service Classification

In an order issued June 23, the Postal Regulatory Commission granted a June 12 motion by the Association for Postal Commerce (Postcom) for issuance of an information request to the Postal Service in Docket PI2023-3, *Public Inquiry on Classification of First-Class Package Service Product*. Postcom urged the commission to seek

“... Revenue, Pieces, and Weight (RPW) information, as well as market share and market power analysis regarding the First-Class Package Service (FCPS) product, particularly with respect to packages delivered to Post Office Boxes (PO Box); Air/Army Post Offices (AFO), Fleet Post Offices (FPO), and Diplomatic Post Offices (DPO); US Possessions, Territories, and Freely Associated States; and Alaska and Hawaii.”

As the PRC explained,

“... the requested information ‘will allow participants to better understand and evaluate the market(s) served by the FCPS product’ and ‘to determine if all or part of the FCPS product is more properly classified as a Competitive product or a Market Dominant product.’ ... PostCom further asserts that the proposed questions ‘also seek information about particular uses of and markets for FCPS that might have unique characteristics warranting differential treatment.’”

The commission concluded that

“... the information sought by PostCom is likely to materially assist the Commission in the performance of its functions under [statute]. Moreover, the Motion sets forth reasons why the information request should be issued and demonstrates why the information sought is relevant and material to the Commission’s inquiry on the proper classification of the FCPS product.”

The USPS did not oppose the motion or suggest that the request is burdensome or involves “confidentiality concerns.” The PRC issued a Chairman’s Information Request the same day, seeking information as suggested by Postcom. The USPS has yet to respond.

May Financials: Volume Falling Faster than Expenses

The Postal Service may deny the effects of semi-annual price increases but, like past months, the volume and revenue figures for May told a different story. Volume for the four market-dominant classes was sharply lower – again – while competitive product volume, which was expected to grow as a source of volume, was essentially flat. Personnel and transportation costs again exceeded plan, but the workers’ comp liability swung helpfully by $237 million. May revenue totaled $6.248 billion, but the month ended with a net loss of $616 million.

Total market-dominant mail volume for the month was down 11.3% from May 2022, with a 3.1% loss of First-Class Mail and an 16.9% decrease in Marketing Mail. Competitive products volume was up by only 0.3%%. Total USPS volume was 9.156 billion pieces, down 10.7% from last May.

First-Class Mail: 3.633 bln pcs, -3.1%; 31.808 bln pcs, -6.3% YTD

Marketing Mail: 4.639 bln pcs, -16.9%; 41.248 bln pcs, -10.0% YTD

Periodicals: 254.52 mln pcs, -10.7%; 2.038 bln pcs, -12.5%

Total Mkt Dom: 8.584 bln pcs, -11.3%; 75.658 bln pcs, -8.6% YTD

Total Competitive: 549.79 mln pcs, +0.3%; 4.438 bln pcs, -3.1% YTD

Total USPS: 9.156 bln pcs, -10.7%; 80.331 bln pcs, -8.3% YTD

Though market-dominant revenue should be higher because of price increases totaling over 10.7% since March 2022, revenue from the market-dominant classes, compared to SPLY, actually was down 0.1% for the month, suggesting the sharp increases finally are having the negative effect on mailing that top USPS executives still refuse to acknowledge. Total USPS revenue for the month was $6.248 billion, with its components mostly lower:

First-Class Mail: $1.950 bln, +6.6%; $16.721 bln, +1.5% YTD

Marketing Mail: $1.177 bln, -9.8%; $10.307 bln, -5.0% YTD

Periodicals: $76.92 mln, +0.2%; $613.6 mln, -4.5% YTD

Total Mkt Dominant: $3.490 bln, -0.1%; $30.215 bln, -1.2% YTD

Total Competitive: $2.639 bln, +2.4%; $21.853 bln, +0.1% YTD

Total USPS: $6.248 bln, +0.8%; $53.174 bln, -0.8% YTD

Total “controllable” compensation and benefit costs for May were $4.967 billion, and total expenses were $6.952 billion. The decrease in mail volume has yet to be reflected by a drop in workhours. Workhour usage was 0.6% over plan for the month, despite less mail, and 0.5% more than last May. Total workhours for the year were 0.5% over plan but 2.4% below SPLY YTD.

Month’s end complement: 640,123 employees (521,309 career, 118,814 non-career) **+0.2%** compared to last May (638,819 employees: 507,157 career, 131,662 non-career), but **2.79% more** *career* workers than a year ago.

Compared to pre-pandemic May 2019, total USPS volume was down 21.22% (market dominant 22.65% lower; competitive up 26.07%), yet workhours were down only 1.89%.

FY 2022 Household Diary Study Reflects Overall Decline in Mail Volume

On June 7, the Postal Service filed *The Household Diary Study – Mail Use & Attitudes FY 2022* with the Postal Regulatory Commission. The associated survey, conducted annually since 1987

“... aims to collect information about households’ use of the mail and how that use changes over time. The information collected includes household demographics, lifestyle, attitudes toward mail and advertising, bill payment behavior, and use of the Internet and other information technologies.”

The report’s executive summary, provided an overview of mail usage and the markets that drive mail volume:

“As seen in Table E.1, in 2022, US households received 102.1 billion pieces of mail and sent 6.4 billion pieces. In total, mail sent and received by households accounted for 83% of all US mail. Mail received consisted mostly of Marketing Mail (55%) and First-Class Mail (32%). The rest consisted of packages and periodicals. Most mail sent by households was addressed to non-households. Only 2.5% of household mail (2.6 billion pieces) was sent between households.

Regarding mail markets, the summary stated:

“The Household Diary Study examines mail by the markets it serves. This design cuts across classes to provide a foundation for understanding mail flows and the marketplace changes that affect them. Table E.2 shows household mail volumes by market for 2020, 2021, and 2022.

“In 2022, correspondence mail totaled 14.5 billion pieces, accounting for 14% of all mail sent and received by households. Correspondence fell continuously since the early 2000’s, driven by the growing migration of letters and cards to emails, text, and social media on the Internet. Over the last five-years, total household correspondence fell 11%, reflecting steep reductions in personal (-14%) and social (-26%) correspondence, accompanied by a more gradual decline in business and government correspondence (-6%). Businesses and government agencies were often limited in their ability to correspond via emails or texts due to legal, security, or other business protocols requiring them to communicate or transfer documents by mail.”

Though the study is a statistical observation of what moves through the mail and how the mail is used by people and businesses, it cannot analyze the opinions or attitudes of ratepayers – individual or commercial – about the mail, the Postal Service, or hard-copy mail generally. Similarly, the survey does not assess the reasons why senders may choose a given medium, e.g., electronic or hard-copy, to send a message, though it suggests that ease and cost are key factors.

It’s unknown whether or how the Postal Service will consider the study’s findings when making product or price decisions, but improving ease of use and moderating the cost for paper mail might be conclusions supported by the study’s findings.

USPS Response to PRC Provides Little Information

An axiom of politicians is to answer the question you *wanted to be asked*, not the question you *were asked*. That tactic allows publication of the respondent’s desired message without saying anything potentially controversial.

In its July 19 reply to questions submitted June 21 by the Postal Regulatory Commission, the Postal Service offered just such an answer, repeating its intended message without really substantively responding to the questions.

The first question submitted by the commission was fairly straightforward:

“... Please provide a schedule of planned facility activations, including Sort and Delivery Centers (S&DCs), Regional Processing & Distribution Centers (RPDCs), Local Processing Centers (LPCs), Destination Hubs (DHUBs), and any other facility contemplated as part of the DFA Plan, including the following data elements for each facility:

a. Location (city and state).

b. Facility type.

c. Planned date of activation.

d. List of the existing facilities that will be affected by planned activations.

e. 3-Digit ZIP Codes served.”

While a reader might have expected an equally straightforward tabular response, the USPS instead launched into a fifteen page dissertation about Postmaster General Louis DeJoy’s 10-Year Plan and how it will remedy the consequences of years of neglect under prior administrations that DeJoy found when he arrived. It offered only a high-level summary of the envisioned reconfigured delivery and processing networks, with very little detail that wasn’t already well-known based on information from other sources.

Its response to the PRC’s second question – about the Plan’s impact on existing facilities – the USPS simply cited its answer to question 1.

In its third question, the PRC asked about savings:

“Please refer to the DFA Plan’s projection that the plan will improve costs by $34 billion over 10 years due to self-help management initiatives, including mail processing, transportation, retail, delivery, and administration efficiency. ...”

Again, the USPS set off on three more pages of circumlocution, starting with

“As an initial matter, it is important to note that the DFA Plan is a living plan designed to transform the Postal Service over a 10-year period, during which the Postal Service will continually review and assess evolving conditions and events and react by making appropriate adjustments to our planned initiatives if warranted and/or necessary. Therefore, as the Postal Service systematically advances the DFA Plan’s core strategies over the course of the 10 years of the plan, it is possible (and even likely) that we will determine to revise, recast, delay or not implement certain specific initiatives that were discussed in the document published in 2021. ...”

The fourth question asked

“Please refer to the DFA Plan’s description of potential network realignments. ... Please also refer to the DFA Second-Year Report, where the Postal Service states there will not be any post office closures or changes to the local Post Office retail operations. ...

a. Please confirm that no post offices will be closed as part of the DFA Plan. If not confirmed, please describe why.

b. Please confirm that customers will not experience any changes to their local post office retail operations. If not confirmed, please describe why.”

The closest the USPS came to answering was to say it wasn’t “currently pursuing initiatives” that would impact “retail access” while adding that “this does not mean that the Postal Service will never pursue these or other initiatives in the future that might impact retail access.” So, maybe – or not.

The final question was about whether the USPS would seek an advisory opinion from the PRC “prior to the implementation of its new facilities (e.g., S&DCs, RPDCs, and LPCs) and corresponding processing and logistics network realignments.” The agency’s answer was another rambling, lawyerly treatise that, ultimately, said not now but maybe later.

Slowing CPI May Soften January Price Hike

It appears that the trend line is pointing to a relatively modest price increase in January 2024. After four months’ CPI (March-June), the calculated CPI-based cap is 1.388%, pointing toward an eventual authority by August of about 2.08%. (The USPS is estimating about 2.0%.) However, the annualized CPI (for filings made annually) has fallen every month since last November, and the month-over-month change in calculated CPI-based authority has continued to be negative, suggesting the CPI’s contribution to future price increases will be moderated as a result. (The USPS estimates that the CPI will continue to yield decreasing pricing authority through 2026.)

On the other hand, the additional price authorities awarded the USPS by the PRC in November 2020 operate separately.

The “density” adder, usable only once per year, relates to volume per delivery stop. It’s calculated in December and so isn’t available until the spring – and therefore included in the increase filed in April to be effective in July. (The USPS estimates the “density” adder will provide 3%-4% pricing authority in 2024, and 2%-3% in 2025 and 2026.)

Though originally developed to enable required prefunding payments, the “retirement” adder now is used to fund outstanding liabilities to the federal pension funds. It, too, is calculated in December and used in the July price filing. In recent years, the “retirement” added has been about 1%, though the USPS estimates it to be higher – between 1.7% and 2.2% -- in 2024 and 2025, accordingly. (The “retirement” goes away by 2026.)

The third adder, applied only to “non-compensatory” (underwater) products, is a fixed 2% and is available once per calendar year (it was used in the April filing for the July increase). Currently, the only class to which it applies is Periodicals.

Adding it up, when the Postal Service files in October for a January 2024 price change, the available rate authority would be as provided by the increase in the CPI over the six months from March through August 2023 (about 2%), plus whatever the USPS has “banked” (remaining) after earlier filings (that amount varies by class).

A word of caution should anyone believe that such a modest increase portends similar increases in the future. As noted, the July increase, likely proposed in a filing next April, would see a return of the adders which, if current USPS forecasts are correct, could add 6% on top of the projected 1.8% from CPI – plus another 2% for Periodicals.

PR Hype Masks Stagnant Service

A consistent theme of the weekly press releases spewing from the USPS PR machine over the past two years has been that service for First-Class Mail, Marketing Mail, and Periodicals has been “steady,” “consistent,” or “improved across all categories.” Combinations of these and similar terms and phrases are used over and over, no matter whether the associated numbers are up or down from prior weeks.

When the weekly releases began, in mid-2021, the USPS was still recovering from the impact of the COVID pandemic on staffing levels, so improvement from that period would be expected as processing and delivery functions stabilized.

Staffing also has changed; the PMG boosted career complement by 2.3% between May 2021 and May 2023 (the latest data available), converting thousands of non-career workers to career status. The May 2023 total workforce had thousands fewer non-career workers compared to May 2021, but overall complement was only 0.48% smaller.

Meanwhile, over the past two years, likely because of aggressive price increases under The Plan, market-dominant mail volume has dropped sharply – down 7.66% from May 2021 to May 2023 (competitive products are up only 1.2%). Less mail means less work for an essentially same-size workforce, so delays can’t be traced to too few people.

Transportation also has changed, with less mail moving by air and more by truck, and operational changes have reduced irregularities in mail clearance and dispatch times. And, of course, the effect of seasonal weather is always relevant.

Importantly, the USPS does not measure service for all mail. In PQ II/FY 2023 (January-March), 34.97% of First-Class Mail, 26.81% of Marketing Mail, and 44.91% of Periodicals was *not* “in measurement.” (But, for example, destination-entered Marketing Mail, needing little processing, *was* measured.)

Moreover, the numbers that the USPS presents in its publicity are national level homogenizations of all the component categories and presort levels of each class *that were measured*, further obscuring any information about, for example, 5-digit presorted in-county Periodicals entered at origin, or origin-entered Mixed ADC Marketing Mail flats – whose service is likely to be much less publicity-worthy.

With all of that in mind, the claim of “steady” improvement is challenged by the weekly numbers that are much more variable. From week to week, as the above factors have their effect, variations are to be expected and any uptick may not truly indicate a long-term “improvement.” In fact, from August 2022 through July 2023, the aggregated service performance for the reported classes of mail has changed very little, with two of the three ending the period *lower* than at the start; the weekly numbers for First-Class Mail and Periodicals were lower at week 52 than week 1.

Commercial mail producers and their clients need to know *real* USPS service in order to schedule mailings and see service results in line with expectations based on factual data. Unfortunately, that’s not what the PMG and his publicists wants to provide. For them, it’s all about the spinning the numbers to support the story they want to tell.

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