# Mailers Hub News

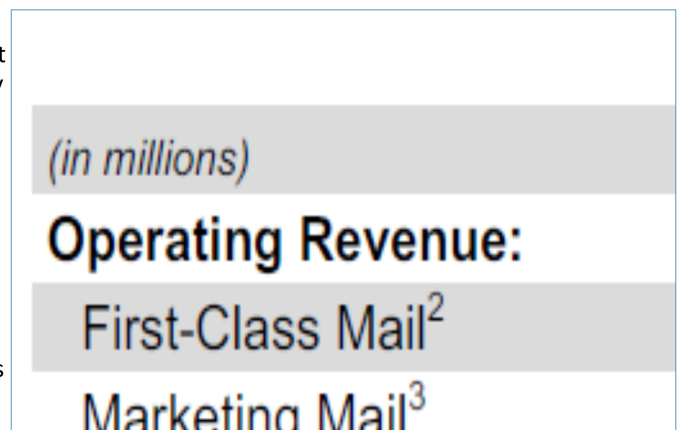
## February Summary *From the February 13 and 27 issues*

### *USPS Reports Results for FY 2023 PQ I*

On February 9, the Postal Service filed its *Form 10-Q* for the first quarter of its 2023 fiscal year (October 1 – December 31, 2022). The reported figures reflected how the agency's situation has changed since the same period the previous year. Though they occurred earlier, the major events impacting USPS volume and its finances in PQ I were the *Postal Service Reform Act of 2022*, enacted last April, and the price increases implemented in January and July 2022.

The *PSRA* eliminated all "prefunding" payments, past and future, and revised the Postal Service's current year obligations, significantly improving the agency's bottom line. Although the price increases were designed to increase income, they also suppressed volume, and consequently yielded less net revenue than the simple math would predict.

PQ I is typically the Postal Service's best quarter for volume and revenue so, if that remains true for FY 2023, the rest of the year may be disappointing. Though price increases may boost revenue, PQ I saw volume of all the reported categories decrease; even Shipping and Packages was lower than PQ I of FY 22. As the Postmaster General presses forward with price increases in January and July 2023, there's no reason to expect the apparently resulting trends of lower volume and minimally increased revenue not to continue.




Even as the PMG persists in his expectation that package volume will be the financial salvation of his agency, the volume trend of shipping and package services was not supportive of such an outlook; the revenue trend was hardly better.

Meanwhile, expenses for the quarter was where there was obvious growth, with compensation up early 5% because of "contractual wage increases" and cost-of-living adjustments. The USPS repeated its usual plaint about "systemic imbalances that make our current operating model unsustainable," suggesting no relief ahead for biennial rate hikes.

### *USPS Revises Competitive Product Package Categories*

In consecutive filings with the Postal Regulatory Commission on April 10, the Postal Service revised two of its competitive product categories, continuing its ongoing restructuring of package services overall.

In the first filing (docketed as CP2023-113), the USPS announced it will rename First-Class Package Service as "USPS Ground Advantage," raise its weight limit to seventy pounds, and revise its price structure. (First-Class Mail, from which FCPS was separated, remains a market-dominant product.) Pricing for the renamed service would begin in four-ounce increments (4, 8, and 12 ounces) before stepping to 15 ounces and then to one pound (16 ounces). Higher increments are one-pound steps to seventy pounds. Other criteria and pricing are carried forward unchanged from First-Class Package Service.

In the second filing, (docketed as CP2023-114), the Postal Service announced changes to the existing Parcel Select product that "... are predominantly structural in nature, to simplify and streamline the Parcel Select product across all price categories. Classification changes are being proposed to establish the Destination Hub (DHub) price category, eliminate the machinable/nonmachinable price categories under Parcel Select Destination Entry, and align the entry/zone options across the various Parcel Select price tables."

In announcing its new "DHub" destination entry, the USPS stated it "expects that this new price category and associated rates will encourage growth at new facilities." The agency made no comment about what these "new facilities" would be, but those being repurposed under its nascent network redesign process, and the "sort and delivery

centers" being established are likely candidates.

The USPS noted that it planned to implement the changes for both FCPS and Parcel Select on July 9, likely in concurrence with anticipated price changes.

### *December Financials: Not How Peak Season Should Look*

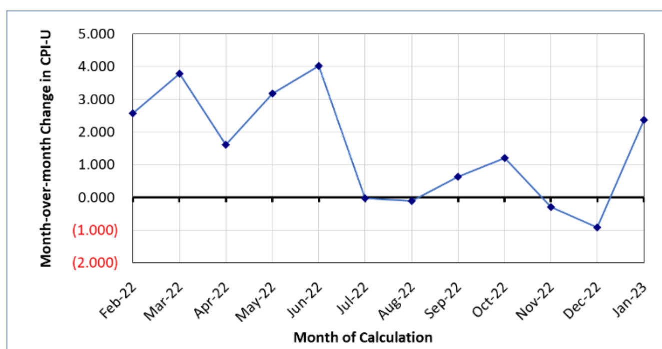
Despite December being the month when volume and revenue peak for the fiscal year, December 2022 continued the pattern of weak volume and disappointing revenue, again suggesting the consequences of repeated sharp price in-creases on market-dominant products are being manifest.

Volume for the four market-dominant classes was sharply lower, with only two having miniscule revenue increases. First-Class Mail continued to slide, and Periodicals had a big decline, but Marketing Mail volume and revenue fell sharply. Meanwhile, competitive product volume was up only 1.3% year-over-year; how much was federal COVID test kit shipments, rather than commercial or retail mailings, wasn't dis-closed. Transportation costs moderated, and the workers' comp liability swung favorably by $312 million. December revenue was $6.819 billion, yielding a net loss of $991 million for the month. Total market-dominant mail volume for the month was down 10.6% from December 2021, with a 5.4% loss of First-Class Mail and an 15.3% decrease in Marketing Mail. Total USPS volume was 10.308 billion pieces, down 9.8% from last December.

Though market-dominant revenue should be higher because of price increases totaling over 13.3%, revenue from the market-dominant classes, compared to SPLY, actually was down 2.1% 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 $7.727 billion, with its components mostly lower. Total "controllable" compensation and benefit costs for December were $5.791 billion, and total expenses were $8.137 billion; both benefitted from the absence of a prefunding payment, thanks to last April's legislation, and from a lower workers' comp liability.

### *CPI Inching Higher as April Filing Nears*

The monthly Consumer Price Index released February 14 by the Bureau of Labor Statistics showed a significant and unwelcome upward jump. After decreasing in four of the six preceding months, January's CPI moved upward nearly 2.4 points, largely erasing the earlier declines.




Given the anticipated April filing for yet another semi-annual price increase, expected to be effective July 9, the *February* CPI figure will determine whether the Postal Service's CPI-linked rate authority builds on the January surge or retreats to a more modest level. Over the past five months, the agency's annualized rate authority has barely changed, but another jump in February would solidify a gain.

As regular readers of *Mailers Hub News* have learned, the calculation of the Postal Service's rate authority uses three different formulae: for an increase filed twelve months after a previous filing, or for an increase filed at a longer or shorter interval. Given PMG Louis DeJoy's penchant for semi-annual increases, the formula for the shorter interval applies.

The next CPI release from the BLS will be March 14 (the February results) and will provide the last figure needed for the Postal Service's filing; the current trend would suggest a six-month rate authority of around 3.5%. In order to meet the planned July 9 effective date, the filing would need to be made by no later than April 10, Easter Monday, assuming all the necessary calculations are complete (see below).

Of course, the Postal Service's CPI-based authority in the expected April filing also will include the additional authorities granted by the Postal Regulatory Commission in November 2020: "density," related to the loss of volume per delivery stop; "retirement," tied to the Postal Service's obligation to prefund retiree costs; and "non-compensatory," intended to allow over-CPI increases for classes and categories not covering their costs.

Last December 30, the Postal Service filed calculations with the PRC stating that, for 2023, the "density" adder would be 0.936% and the "retirement" adder would be 1.036%; the "non-compensatory" rate authority is a fixed 2%. Both the "density" and "retirement" adders need to be confirmed by the PRC. However, how the costs driving the "density" adder are calculated is the subject of a dispute between the USPS and a coalition of mailer groups on which the PRC has yet to rule, but that decision could zero-out the adder if the mailers' position is

| Class | CPI (est) | Density | Retire-ment | Non-comp | Bank | Total (est) |
|---|---|---|---|---|---|---|

upheld by the commission. That ruling is expected by the end of March as it would be a factor in the PRC's *Annual Compliance Determination* – and, in turn, the Postal Service's calculations for the April filing.

The USPS also has "banked" authority unused in the October 2022 filing, and that also would be available to use in April. All of this provides *an estimate* of what we *might* see:

| | | | | | | |
|---|---|---|---|---|---|---|
| **First-Class** | 3.5% | 0.936% | 1.036% | | 0.001% | 5.473% |
| **Marketing** | 3.5% | 0.936% | 1.036% | | 0.003% | 5.475% |
| **Periodicals** | 3.5% | 0.936% | 1.036% | 2.0% | 0.744% | 8.216% |
| **Pkg Svcs** | 3.5% | 0.936% | 1.036% | | 0.003% | 5.475% |
| **Spec Svcs** | 3.5% | 0.936% | 1.036% | | 0.064% | 5.536% |

### *Ignoring the Signs – Analysis*

That the USPS was in financial trouble when PMG Louis DeJoy arrived isn't debatable, nor was the need to take action to avoid an eventual financial collapse. Whether how he has chosen to tackle the situation is the wisest approach is another matter.

Perhaps advised by senior executives who'd long harbored their own unfulfilled views, DeJoy decided that postal finances had to be turned around – quickly – and that the key was increased revenue from higher postage rates. Commercial mailers, he was persuaded, had for years failed to pay enough to cover the costs for the service they demanded.

However, there were some critical flaws in such a perspective that his inner circle chose to omit. First, Congress had long treated the Postal Service as a captive cash cow and in 2006 had saddled it with an infeasible obligation to fund 75 years' of future retiree health costs in only a decade. That was not a burden recommended or imposed by mailers. Second, DeJoy's predecessors (and his current deputy) had time and again agreed to generous contract terms with the postal labor unions, acting even recently as if the USPS was still enjoying the lucrative 1980s – when mail just "happened." Mailers had no voice or vote in those agreements, either. Finally, decades of ineffective management had allowed the operating networks to become inefficient and expensive. Ratepayers wanted service, true, but were not involved in designing or operating the networks required to provide it.

Most inarguably to his credit is the one action which probably he alone could have made happen: passage of the *Postal Reform Act of 2022* which eliminated at least $57 billion in unpaid past and future prefunding obligations.

He's also undertaken a wholesale revision of the Postal Service's transportation, processing, and delivery networks in order to make them more efficient and less costly. Though few debate the need for and value of such an effort, the initial steps are causing a level of concern that the process is being rolled out faster than thoughtful planning and analysis would require.

Nonetheless, with the idea now engraved in his thinking that ratepayers had to pay more, DeJoy set out to maximize the pace at which the red ink would be eliminated. What is becoming clearer, however, is that DeJoy's obsessive demand for semi-annual rate increases is resulting in accelerated loss of mail volume, well ahead of what might be the normal attrition and diversion to electronic media. Concurrently, actual volume has yet to support his conviction that the package business is the key to the Postal Service's future.

| Month | Market Dominant: % change from SPLY | | | | | | Competitive: % change/SPLY | |
|---|---|---|---|---|---|---|---|---|
| | First-Class Mail | | Marketing | | Periodicals | | | |
| | Vol | Rev | Vol | Rev | Vol | Rev | Vol | Rev |
| Sep 2021 | -2.9 | +4.3 | -8.5 | +2.6 | -12.4 | -7.4 | -8.5 | -4.6 |
| Oct 2021 | -8.2 | -2.0 | -17.5 | -5.0 | -7.0 | +2.3 | -14.6 | -6.9 |
| Nov 2021 | +1.5 | +8.4 | +11.1 | +21.3 | -5.1 | +6.0 | -0.3 | +0.1 |
| Dec 2021 | -4.2 | +1.9 | +2.4 | +10.5 | +11.7 | +18.5 | -14.2 | -12.5 |
| Jan 2022 | -1.5 | +5.2 | +9.5 | +17.4 | -23.2 | -13.5 | -3.6 | +1.9 |
| Feb 2022 | +3.0 | +8.3 | +11.8 | +19.4 | +4.0 | +13.5 | +0.1 | +9.0 |
| Mar 2022 | -3.1 | +1.6 | +4.6 | +11.4 | -17.9 | -9.4 | -9.6 | -5.3 |
| Apr 2022 | -6.0 | -0.2 | +2.2 | +7.9 | -0.9 | +5.4 | -8.5 | -3.6 |
| May 2022 | -6.5 | -0.4 | +13.0 | +19.1 | -6.4 | -0.4 | -2.7 | +1.3 |
| Jun 2022 | -2.8 | +3.3 | -4.2 | +1.5 | -2.5 | +6.1 | -1.5 | -0.9 |
| Jul 2022 | -5.0 | +5.6 | -5.9 | +3.7 | -18.2 | -9.0 | +2.2 | +3.2 |
| Aug 2022 | -1.2 | +10.4 | -5.5 | +5.3 | -18.7 | -2.2 | +1.0 | +5.0 |
| Sep 2022 | -6.2 | -0.8 | +7.8 | +11.9 | +6.5 | +17.1 | -1.9 | -5.8 |
| **FY 2022** | **-3.4** | **+3.3** | **+1.3** | **+9.6** | **-7.6** | **+1.8** | **-5.0** | **-1.8** |
| Oct 2022 | -2.3 | +4.5 | +6.4 | +7.4 | -17.2 | -12.1 | +0.6 | +5.0 |
| Nov 2022 | -5.5 | +0.1 | -8.1 | -5.8 | -9.6 | -2.5 | -9.9 | -2.6 |
| Dec 2022 | -5.4 | +0.1 | -15.3 | -11.5 | -12.0 | -7.5 | +1.3 | -5.7 |
| **PQ I/FY23** | **-4.5** | **+1.5** | **-4.7** | **-2.4** | **-13.0** | **-7.5** | **-2.7** | **+2.7** |
| Jan 2022 | -7.5 | -0.3 | -10.1 | -4.2 | -5.8 | +2.6 | -5.0 | +0.4 |

Three price increases have been imposed in less than sixteen months (August 29, 2021, 6.8%; July 10, 2022, 6.5%; and January 22, 2023, 4.2%) with another of about 5.6% planned for July 9, 2023 – a total of 23.1%, or 31.1% for Periodicals and other "underwater" products, in less than two years.

In the 72-weeks from early October 2021 through early February 2023, mail volume has been lower, compared to the same period the previous year, over 69% of the time; in the past year, that number has risen to 75%. The picture for packages is even less encouraging. Based on USPS data, from early April 2020 through early April 2021, package volume grew every week, compared to the same period the previous year. However, for over 82% of the weeks in the following weeks through February 2023, year-over-year package volume has fallen.

Meanwhile, postal leadership has been dismissive of commercial mail producers and their representatives who warn that ratepayers can and will seek alternatives to the mail if the obsession for more revenue continues, as recent months are starting to indicate.

Mail volume loss to electronic media has been ongoing for decades, but transactional mailers are increasingly encouraging customers to “go paperless” to reduce postage costs. Advertising mailers, setting budgets for late 2022 and early 2023 mailings, have reduced volume to offset higher postage prices. After benefitting from government COVID test kit mailings, competitive products are far from showing the volume growth the PMG expects.

To commercial mailers – who know the business of mail – these data are signs that constant price increases are threatening USPS volume and revenue; unfortunately, Louis DeJoy is too determined – or obstinate – to notice.

### *January Financials: Decreasing Volume Trend Continues*

January 2023 continued the pattern of weak volume and dis-appointing revenue, likely consequences of repeated sharp price increases on market-dominant products.

Volume for the four market-dominant classes was sharply lower again, with only two having small revenue increases. Competitive product volume was off 5.0% year-over-year. Transportation costs moderated, and the workers’ comp liability swung negatively by $511 million. January had revenue of $6.643 billion but ended with a net loss of $1.026 billion. Total market-dominant mail volume for the month was down 8.7% from January 2022, with a 7.5% loss of First-Class Mail and an 10.1% decrease in Marketing Mail. Total USPS volume was 9.750 billion pieces, down 8.5% from last January, more than offsetting a slight improvement over 2021.

Though market-dominant revenue should be higher because of price increases totaling over 13.3%, revenue from the market-dominant classes, compared to SPLY, actually was up only 0.2% 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 $6.642 billion, with its components mostly lower.

Total “controllable” compensation and benefit costs for January were $4.918 billion, and total expenses were $7.744 billion; both benefitted from the absence of a prefunding payment, thanks to last April’s legislation, but were impacted by an increase in the workers’ comp liability. Workhour usage was 2.8% over plan for the month, despite less mail, and flat compared to last January. Total workhours for the year were 0.2% over plan and 1.9% below SPLY YTD.

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