



Biweekly Postal/Paper/Logistics Update

September 24, 2021

The USPS released its schedule for rate adjustments every six months through 2024. The Paper Market saw some big changes ahead of price increases coming October 1. The Logistics Network faces the same challenges that affect the rest of our nation's economy.

Quad is a significant mailing industry partner, printer and transportation services provider — we're uniquely positioned to provide accurate information on topics related to postal, paper and logistics. Our goal is to provide 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 provide answers to all.

Here are key developments since our last update:

POSTAL

USPS Market Dominant product price adjustment schedule

The Postal Service shared its intended dates for rate changes into the 2024 calendar year. While it's helpful for mailers to anticipate change, we still see glaring issues that the USPS has to account for immediately. First, here's the schedule:

- Jan 2022: No Market Dominant price change
- July 2022: 10 months CPI, Density Authority for 2021, Retirement Authority for 2021 and 2% under water products.
- January 2023: 6 months CPI plus unused authority (if any)
- July 2023: 6 months CPI, Density Authority for 2022, Retirement Authority for 2022 and 2% under water products.
- January 2024: 6 months CPI plus unused authority (if any)
- July 2024: 6 months CPI, Density Authority for 2023, Retirement Authority for 2023 and 2% under water products.

The twice-annual price adjustments should theoretically make for smaller, more incremental changes. July will be the larger increase due to Density and Retirement Authority.

But Quad has alerted industry partners and pressed the Postal Regulatory Commission (PRC) to consider that a 2% increase for underwater products combined with the additional 2% for underwater product categories (such as most of Marketing Mail Flats) creates the opening for the Postal Service to raise rates amounts to 4% annually. This is unacceptable. The USPS has acknowledged that this is something they didn't consider.

As for the Consumer Price Index (CPI), the USPS rate authority is at 1.3% through July 2021. But for August, the increase could be 5.5% over the prior year. This could mean a very steep increase based on CPI alone. There won't be a Market Dominant price change this January, though we do expect an increase for Competitive products.

Note that the PRC also granted a temporary price increase for the 2021 holiday season that applies to Priority Mail, Priority Mail Express, Parcel Select Ground and USPS Retail Ground. This increase will not affect most business mailers.

Mail Transport Equipment (MTE) shortages

MTE availability is better than it was earlier this month, though some USPS customers still experience shortages. Quad is no longer critically low on pallets, though we'd like to have more on-hand than are currently available. The Postal Service has communicated that they've purchased new equipment and now conduct weekly assessments of inventory at processing plants. They feel more prepared to reroute MTE to areas of the country where it's needed most.

USPS Performance

Hurricane Ida impacted mail in the New Orleans area significantly from August 30 through September 11, and there are still delays in some 5-digit zip areas. The same storm impacted some areas on the east coast as well, mainly on September 2 and 3, primarily in NJ. There are still some delays in NJ due to the impact of damage to a parcel processing facility as the USPS has moved that processing to SCFs DV Daniels and NJ Metro.

The USPS is moving mail well, overall. We are starting to see some delays with Flat mail in recent weeks. We expect to see that grow as volume increases over the next two months. We are especially concerned about December 2021 after the issues experienced in December 2020 when the USPS was overwhelmed with parcels and warehoused flat and letter mail for weeks. We have not seen enough done to reassure us that a similar situation will not happen again.

Postal volume

Mail volume for the week ending September 11 (which included Labor Day), compared to 2020

Total Mail Volume: ▼ 1.6%

Packages: ▼ 7.5%

Single Piece: ▼ 7.8%

Presort First Class: ▲ 0.2%

Marketing Mail: ▼ 9.1%

Periodicals: ▼ 39.9%

Congressional legislation

While the effort to pass comprehensive postal reform continues, we have an opportunity to have Congress compel the Postal Regulatory Commission (PRC) to undertake a second review of the postal rates authority that has been granted to the USPS. The industry is working with the Senate Appropriations Committee to insert this second review into the appropriations bills that are currently being considered by Congress.

This second review would ensure that the rates the USPS has authority to take into account the recent changes that have benefited the USPS. Congress has provided \$10 billion in COVID relief. Additionally, the Postal Service's finances are in a better position today than when the PRC last reviewed the rate structure due to the increase in parcel deliveries. Lastly, once Congress enacts the postal reform legislation, \$44 billion will be

removed from the USPS's balance sheet. All of these factors will certainly alleviate, in part, the need for such high rate increases.

Right now, all mailers can assist with advancing legislation to curb postage increases. The more Congress hears about troubling aspects of the USPS's plan, the more likely they are to push hard for changes with the Postmaster General and the Board of Governors. **Please consider taking a few minutes to [fill out a short form on this page](#), which will automatically message your Members of Congress. Or you can text MAIL to 52886.** The process is a simple, extremely effective and efficient way to let Congress know your thoughts and tell your story about how important an affordable USPS is to you. The time is now to let Congress know that you support requiring the PRC to take another look at the rates and the improved financial position of the Postal Service. Congress can help our industry and the over 7 million jobs we support. The more Congress hears from those in our industry the more likely we will be successful in getting the PRC to review these new higher rates. thoughts and tell your story about how important an affordable USPS is to you.

PAPER

Paper market challenges

Paper supply shortages continue to hinder demand growth in printing for the second half of this year. Coated paper markets are experiencing major supply shortages as Pactiv Evergreen exits coated paper production in October. There simply is not enough coated paper available to meet the demand for the balance of this year.

There are only four remaining domestic producers of coated freesheet (CFS), and five making coated groundwood (CGW). Thirty percent of domestic CFS capacity is gone since 2019. After October, almost 50% of CGW capacity will be gone, leaving very few options to source coated graphic paper grades.

Producers of supercalendered grades have benefited this year from large volumes of CGW grade migrations to SCA+ grades caused by the CGW shortage, and filling SC mill order books through mid-December. Uncoated freesheet grades are now sold out through end of this year. Newsprint remains available at extended lead times, but production issues at some mills have wreaked havoc on this supply chain.

Recent News

- Pactiv Evergreen announced on July 28th that it will permanently cease production of coated groundwood (#4 and #5) paper at its Pine Bluff, AR mill by the end of the third quarter. The reason stated was to re-invest resources into their strategic core competency of liquid packaging board as well as other more profitable segments. *(Source: Company Press Release)*
- Uncoated freesheet (UFS) suppliers International Paper, Domtar, and PCA will take scheduled downtime over the next few months, which will tighten supply in this market considerably during this period. *(Source: Fastmarkets RISI)*
- Domtar will restart one paper machine at its Ashdown, AR mill, expecting full operation in January 2022. This will add 185,000 tons of UFS production capacity back into the market. *(Source: public domain)*

- Stora Enso has completed negotiations with trade unions regarding the permanent closure of its improved newsprint and supercalendered (SC) paper mill in Kvarnsveden, Sweden. Mill production will cease by September 30. (Source: Company Press Release)
- Paper Excellence plans to restart its idle market pulp mill at Pictou, NS. They intend to upgrade the 280,000 tonnes/yr northern bleached softwood kraft (NBSK) mill, which has been down since 2020. (Source: public domain)
- ST Paper's recently-acquired Duluth, MN mill will receive a tissue machine from Andritz as part of ST's plan to convert both Duluth machine and add a PM to produce a range of bath, napkin and towel grades, reports said this week.

Market Influencers

- Magazines posted year-over-year reductions vs. Q2-2020, down 6% in Q2-2021.
- Mill costs have risen, and paper supply is short in 2021, causing mills to increase paper prices between 15% and 27% depending upon paper grade.
- Wood Pulp prices rose 40% this year but pricing appears to be receding since June.
- Fuel and Energy prices continue to drive up costs.
- Global Shipping and supply chain disruptions continue amidst the pandemic.
- National Load-to-Truck Ratio data currently shows the national load-to-truck ratio at 6:1, which is normally 3:1. Demand is driving up rates. Expect this to worsen in Q4 of this year. Source: DAT.com

<i>Forecast</i>	Q3-21 vs Q3-20	Q4-21 vs Q4-20	Q1-22 vs Q1-21	2021 vs 2020 *
Catalogs Mailed	3.3%	2.7%	12.2%	0.2%
Magazine Ad Pages	11.8%	2%	2.5%	-6.5%
Printing Shipments	13%	7%	7.7%	7.1%
For the month:	Aug '21	Jul '21	Aug '20	% yr/yr
Crude Oil Avg. Price	\$67	\$72	\$42	58.1%
NBSK Pulp	\$1,535	\$1,575	\$1,130	35.8%
EUR/USD	\$1.18	\$1.18	\$1.18	-0.4%
CAD/USD	\$0.79	\$0.80	\$0.75	5.0%

Source: Public Domain; ERA * Q1-21 was down double digits

Paper grade review

- Coated grades – Coated producers continue with full order books for the foreseeable future. Mill operating rates are projected to average 96% in 2022, for CGW grades and 97% for CFS grades. As of October 1, coated paper prices will have increased by between 15% and 20% for the year, depending on the grade. Industry analysts are predicting another 2-3% price increase early in 2022.

- Uncoated freesheet grades (UFS) – Growth in the economy has continued to spur tight UFS paper markets this year, with operating rates in the 95% range. Buyers of UFS have been building inventory to beat price increases, so operating rates at the mills could drop as we enter 2022. Domtar is restarting their UFS machine at Ashdown in early 2022, but Fastmarkets RISI has reported that PCA may convert its remaining UFS machine at Jackson, AL to containerboard later this year. As of October 1, UFS paper prices will have increased by about 20% for the year. Fastmarkets RISI and other industry experts also forecast price stability for UFS paper in 2022.
- Uncoated groundwood grades (UGW including SC) – As tightness in the coated groundwood paper market continues into 2022, after Evergreen’s exit from CGW, expect UGW-SCA producers to benefit from substantial grade migrations to SCA grades. This will move the SC producers into a position of having full order books in 2022. As of October 1, UGW machine finish paper prices will have increased by 17%, and UGW SC grades by 24% for the year. Industry analysts are predicting flat to slightly rising prices in UGW paper grades for Q1-2022.
- Newsprint grades – Newsprint demand continues to slack, despite mill operating rates in the upper 90% range. Operating rates are projected to remain in the low 90% range for 2022. Domestic producers will seek opportunities for exports to Asia and Europe, where supply shortages continue. As of October 1, newsprint paper prices will have increased by about 25% for the year. Industry analysts expect stable newsprint prices in Q1-2022.
- Sheet-fed and Digital grades – Depleted inventories remains the key topic for these grades, as mills are not able to replenish due to increased new orders. These markets continue with mill allocations and limited supply for new business, long lead times, and even order moratoriums on many grades of printing papers. Additional supply from overseas has been limited by container shortages and supply chain disruption.

Paper Grade	Mill Inventory*			Mill Shipments**			Mill Capacities**			Current Avg Order Lead Time †	For the month of July 2021				
	Jul '21	Jun '21	Jul '20	Jul '21	Jun '21	Jul '20	Jul '21	Jun '21	Jul '20		Mill Inv. mo/mo	Mill Inv. yr/yr	Shipments yr/yr	Capacity YTD yr/yr	Operating Rates
Newsprint	15	16	30	197	205	177	213	215	296	6 to 10 weeks	-6.3%	-50%	11%	-34%	97%
Uncoated Groundwood	24	24	35	163	163	143	187	194	242	8 to 12 weeks	0.0%	-31%	14%	-18%	87%
Uncoated Freesheet	28	29	40	524	536	499	559	549	617	12 to 14 weeks	-3.4%	-30%	5%	-15%	94%
Coated Groundwood	20	18	52	93	106	79	109	105	138	14 to 16 weeks	11.1%	-62%	17%	-34%	85%
Coated Freesheet	32	34	132	185	199	158	187	182	208	14 to 16 weeks	-5.9%	-76%	17%	-26%	99%
Sheet-fed grades										12 to 16 weeks					
Digital grades										12 to 16 weeks					

Source: PPPC, Quad Paper Services † ALL lead times (LDOs) are significantly longer due to current market conditions

* Reported as days on hand of paper mill inventory. ** Reported in thousand tons.

(Continued)



LOGISTICS NETWORK UPDATE

The US logistics network is still experiencing a stressed supply chain, especially in the LTL space where we continue to see delays of 2-3 days from the published transits, and a larger number of mis-routed product by these Carriers. They're experiencing the same challenges as the rest of the US economy with reduced labor and inexperienced employees.

The truckload market is currently holding up but struggling to handle capacity with more demand than supply. Rates remain high, especially for product that is to be handled on weekends. Rail is also a continuing challenge, as it has been all year. The areas impacted change weekly, which makes it difficult to determine the best shipping method at any time. Carrier rates rose the last week of August and prior to Labor Day weekend due to capacity issues.

See how we can help.

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