



Monthly Postal/Paper/Logistics Update

April 13, 2022

Rate hikes are coming to the USPS in July. The Postal Reform bill is signed into law, considerably brightening USPS' fiscal outlook. February 2022 saw USPS post strong monthly revenue numbers, reflecting a month when mail volumes were generally up from the prior year. However, in March mail volumes fell for the most part, except for Marketing Mail and a one-week jump in Periodicals. Keep reading for more details.

Quad is a significant mailing industry partner, printer and transportation services provider, uniquely positioned to share accurate information on topics related to postal, paper and logistics. Our goal is to give 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 share answers for all.

Here are key developments since our last update:

POSTAL

USPS files for across-the-board rate hikes

On April 6 the USPS filed notice with the Postal Rate Commission (PRC) of its plan to raise Market Dominant mailing prices, effective July 10 this year. The USPS Board of Governors authorized the hefty increases at its closed door meeting at the end of March.

While headlines about the price increases noted a 6.5% increase for both First Class and Marketing Mail, and an 8.5% increase for Periodicals, those are averages. Within the Marketing Mail category, some products like Flats, which includes catalogs, will have to bear much higher increases:

- MM letters 6.151%
- MM flats 8.543%
- Parcels 9.785%
- High density/
Saturation letters 8.326%
- Carrier route 8.657%

A list of rate changes for all Market Dominant products can be found [here](#).

The USPS [news release](#) announcing the changes noted that the 6.5% increases were lower than the latest annual Consumer Price Index inflation rate of 8.5%. However, that's because the USPS had only 10 months of CPI available for the authorized increase since the agency raised rates less than a year ago, which included a CPI adjustment along with their new density and retirement authority.

Commercial mailers and others had been urging USPS to bank some of the authorized rate hikes rather than implementing them all at once, but the agency chose the all-in approach.

In its news release, the agency cited inflation and increased operating expenses as reasons for the increase. It said the hikes “will help with the implementation of the Delivering for America plan” that includes a \$4 billion investment in core USPS infrastructure over the next 10 years.

In addition, this latest increase means that since January 2021, the USPS has raised First Class and Marketing Mail prices more than 15%, and almost 20% for Periodicals. Coming on top of paper shortages and ongoing supply chain/logistics issues, the rate hikes will be difficult for mailers to manage.

The Quad Postal Solutions team is already working on impact analyses for clients, since not all mailers are at the average for a class. Please reach out to your Quad Postal Solutions contact with any questions.

Postal reform becomes the law of the land

President Biden signed the 2022 Postal Reform bill into law on April 6, just ahead of Congress’ two-week Easter break.

The bill saves the USPS approximately \$50 billion over the next 10 years and mandates six-day-a week mail delivery. It also forgives both the debt and the nonpayment of retiree health care benefits pre-funding. This means that not only will the USPS not have to make the payments going forward, they won’t have to catch up on payments that they didn’t make previously.

In a win for mailers, a 2.15% rate increase (on top of the regular pricing authority the USPS now has) that was part of previous versions of the bill was not included in the final legislation.

USPS reports revenue growth for February

USPS reported its second month of strong financial results in February. Monthly operating revenue grew 11% over February 2021, to \$6.4 billion, which was 11% above plan. The USPS posted a net loss of \$306 million for the month, much lower than the \$835 million planned, but below net income of \$43 million in February 2021.

Year to date, the Postal Service posted an operating loss of \$1.9 billion, excluding interest income and expense, compared to operating revenue of \$105 million for the same period last year, but better than the \$2.9 billion planned loss.

Market Dominant products’ volume rose 7.5% for the month compared to the previous year, buoyed by the continuing economic recovery and the USPS’ role delivering the COVID-19 test kits the White House promised all Americans would be able to order. Higher rates helped boost Market Dominant products’ revenue 14.7% to \$3.7 million.

Competitive products’ February volume was essentially flat with the same period last year, but operating revenue rose to \$2.6 million, up 9.0%.

USPS delivery performance

Although Marketing Mail volume has been significantly higher in 2022 than in 2021, the USPS is moving the mail a little more quickly than it did at this time last year. Flat mail, which is always processed at a slower pace than Letters, has been getting through the USPS faster in the last few weeks.

Good delivery is typical during spring and summer months when winter weather no longer snarls transportation and Marketing Mail volume is typically lower than at other times of the year. At this point, we don't expect any major shifts in performance to occur for the next several months.

First Class mail hit an average of 96% in-home by Day 5 after the mail entered the USPS. The last 4% were delivered over several more days. This is an improvement over what we experienced earlier in the year, but we should have 100% in-home by Day 5.

USPS volume

Mail volume for week ending
March 26, compared to last year:

Total Mail Volume: ▼ 1.4%
Packages: ▼ 9.7%
Single Piece: ▼ 12%
Presort First Class: ▼ 4.1%
Marketing Mail: ▲ 10.7%
Periodicals: ▼ 47.7%
Total Flats: ▼ 11.2%

Mail volume for the week ending
March 19:

Total Mail Volume: ▲ 0.6%
Packages: ▼ 3.5%
Single Piece: ▼ 8.3%
Presort First Class: ▼ 1.4%
Marketing Mail: ▲ 7.2%
Periodicals: ▲ 38%
Total Flats: ▲ 7.3%

Mail volume for week ending
March 12, compared to last year:

Total Mail Volume: ▲ 2%
Packages: ▼ 6.7%
Single Piece: ▼ 7.4%
Presort First Class: ▼ 0.3%
Marketing Mail: ▲ 7%
Periodicals: ▼ 26.1%

Mail volume for the week ending
March 5:

Total Mail Volume: ▼ 0.9%
Packages: ▼ 9.5%
Single Piece: ▼ 4.9%
Presort First Class: ▲ 4.7%
Marketing Mail: ▲ 5.7%
Periodicals: ▼ 18%

February YTD Numbers:

Total First Class Mail: ▼ 2.1%
Single Piece: ▼ 10.3%
Presort First Class: ▲ 1.4%
Marketing Mail: ▲ 0.9%
Marketing Mail letters: ▲ 5%
MM High Density Saturation Letters: ▼ 18.9%
MM High Density Saturation Flats: ▼ 14.9%

MM Basic CR Letters: ▼ 19.7%
MM Basic CR Flats: ▼ 7.7%
Periodicals: ▼ 6.1%
Packages: ▼ 7%
International package: ▼ 16.5%
Commercial MM: ▲ 5.6%
Nonprofit MM: ▼ 17.7%

Miscellaneous updates

- **PMG Louis DeJoy** and **USPS VP of Pricing & Costing Sharon Owens** will both be speaking at the Quad Postal Conference in early May, offering insights about the many changes taking place at USPS, including the upcoming rate hikes. This invitation-only event will be held in Milwaukee, May 3-5. If interested, please contact chmcshane@quad.com
- USPS has updated its order for **50,000 Next Generation Delivery vehicles, to now include 10,019 electric** vehicles, up from the original 5,000. Oshkosh Defense, based in Oshkosh, Wis., will build the vehicles at a cost of \$2.98 billion. The new fleet will begin appearing on carrier routes in late 2023.
- The USPS recently approved **gloss paper for its 2022 Tactile, Sensory, and Interactive (TSI) promotion**. TSI offers First Class and Marketing Mailers a 4% postage discount to encourage them to incorporate innovative techniques and materials into mailings. Now, whether mill-provided or gloss-coated on press, using gloss paper entitles you to the 4% discount.
- USPS has added **New Zealand** to the list of countries it will not accept mail for due to COVID impacts, bringing the total number to 19.
- Registration for the **National Postal Forum** as a live event in Phoenix May 15 to 18 is down slightly compared to the last NPF.
- In response to a reader question, **USPS February 2022 financials** do include shipping revenue from COVID-19 test kits — FCM Package Services and Priority Mail (Puerto Rico, Hawaii & Alaska)

PAPER

- ND Paper announced that at the end of this year it will convert the B26 paper machine at its Biron, Wis. mill from coated mechanical papers to lightweight high-strength recycled packaging products. This will eliminate more than 25% of the remaining coated groundwood production in North America, starting in 2023.
- Between March and April this year, paper producers worldwide implemented various surcharges for coated and uncoated papers. This was due to the escalating costs of paper production and shipments, including but not limited to: energy, fuel, freight, chemicals and pulp costs.
- Newsprint paper producers have announced another price increase for May 1. The scheduled increase is \$50/cwt for 30.4# (45gsm) newsprint.
- Coated paper producers are beginning to announce more price increases for May 1.
- Some mills have also announced a price increase of \$2.50/cwt for uncoated groundwood high bright and super bright grades, effective May 1.
- Canadian Pacific Railway workers began a strike on Sunday March 20 that lasted only two days before they agreed to final and binding arbitration, ending the work stoppage.
- UPM paper workers in Finland continue to strike, with the newest deadline pushed out to April 16th.

LOGISTICS

Logistics challenges remain largely unchanged, with rates, performance and capacity generally the same. Therefore, LTL performance continues to be a problem. Rail performance is uneven, with some improvements in some areas at times, but high volumes causing delays in other areas.

The biggest logistics challenge is the soaring price of diesel fuel, which affects both trucks and railroad diesel engines. The national average price of diesel is up more than \$1.00 since last month, a 25% increase.

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

See how we can help.

     866.824.2869  info@quad.com Quad.com

© 2022 Quad/Graphics, Inc. All rights reserved. | 04.22 | Monthly Postal/Paper/Logistics Update

