



# Monthly Postal/Paper/Logistics Update

May, 2022

PMG Louis DeJoy indicates that more rate hikes are likely, and the USPS reported a second-quarter operating loss flat with last year. Keep reading for more details and key developments since our last update.

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.

## POSTAL

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Business mailers and publishers gathered for the 22<sup>nd</sup> Quad Postal Conference in early May where speakers ranging from Postmaster General Louis DeJoy and USPS VP of Pricing & Costing Sharon Owens to representatives of postal organizations and managers of direct mail and direct marketing programs within several companies.

The audience got some unwelcome news during the conference, but also heard about a variety of solutions to manage mailing costs and hold them down as much as possible.

Here are some highlights.

**PMG DeJoy** offered a no-holds-barred assessment of the Postal Service's operational and financial problems. Then he highlighted steps he was taking to fix the situation, including "raising our prices judiciously." You can read more of his keynote address [here](#).

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.

**Sharon Owens** gave a detailed presentation on "USPS Pricing Direction and Impacts" in advance of the July rate hikes, joking to the audience, "I'm probably not the most popular person in the room." She went on to say:

- While a radically improved inflation trend could change this, the USPS will implement twice a year rate increases — in January & July — for the near future.
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- One audience member questioned her about that. “A January rate hike [announced the previous year], I can live with that. But what happens when we have two hikes like last year without early notice? No matter how we educate our business partners, they say ‘There’s no budget for this. We have to reduce mail volume.’ It’s a real challenge.”
  - Owens acknowledged that the USPS had not done the best job of providing rate increase guidance. She said they were committed to “getting ahead of it” and telling mailers what both the January and July increases would be,” but said they needed to get the Board of Governors’ buy-in to be able to do that.
  - The USPS is moving ahead with plans to realign its network, with a combination of First Class, Periodicals and Marketing Mail streams coming.
  - Owens said one of the developments she was most excited about was the USPS had rewed up efforts to educate future marketers about the value of print, how to use the mail and calculate ROI by reaching out to and giving seminars at colleges around the country.

Owens’ complete presentation is available [here](#).

**Quad’s Jeff Henke and Bob Schimek** later did a deep dive on the upcoming rate hikes, breaking out the often wide variations in price increases within each mail category. The goal was to help mailers plan and budget more accurately.

Henke, Executive Director of Postal Solutions, and Schimek, Director of Postal Affairs, then showed the cumulative impact of three consecutive increases since January 2021. This ranged from a low of 12.08% for Bound Printed Matter Flats to a high of 31.90% for First Class Flats.

The duo predicted that, since the January 2023 increase will reflect only six months of inflation, if the Consumer Price Index is higher than 2%, which it likely will be, the increase will be higher. This trend of increasing rates makes it even more important for mailers to take advantage of USPS promotions, which offer discounts of between 2% and 4%.

**Supply & price challenges.** Chris Grond, Quad President of Paper Services presented hard numbers on declining production capacity since 2019 to put the paper shortages everyone is dealing with in perspective:

- **Coated groundwood #4 & #5**
  - 2019 capacity = 2.1 million tons
  - Q3 2021 capacity = 1.22 million tons, down 42%
  - Q2 2022 capacity = 950K tons, down 55%
  - Projected Q1 2023 capacity = 665K tons, down 68%
- **Coated freesheet #2 & #3, web only**
  - 2019 capacity = 2.48 million tons
  - 2022 capacity = 1.46 million tons, down 41%
- **Supercalendared, SCB to SCA++**
  - 2019 capacity = 1.43 million tons
  - 2022 capacity = 1.16 million tons, down 19%
- **Newsprint**
  - 2019 capacity = 3.7 million short tons
  - 2022 capacity = 2.5 million short tons, down 32%

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Grond did say that he believed there would not be more price increases for the rest of 2022.

He also noted that currently Quad buys 800,000 tons of paper across a wide range of grades annually, but that the top 550 SKUs account for 80% of the volume while the other 7,000 SKUs account for the balance, adding “this is not sustainable.” He indicated that SKUs and role sizes would be consolidated in the future.

Kelly Vanderboom, Quad Executive Vice President & Treasurer & President of Logistics, presented an either/or freight forecast. “Is it stabilizing, or is this the calm before the storm? You can make an argument for both,” he said.

On the stabilization side:

- Blended dry van rates have dipped 9% since their January peak, but they’re still high due to market impacts from 2021 and 2020.
- A Q1 seasonal drop in demand for FTL is normal, but is usually followed by an increase in Q2.
- A decline in truckload tender rejections signals improved capacity.

On the calm before the storm side:

- Shanghai COVID-19 lockdowns are slowing imports to the U.S.. About 10% of the global shipping fleet is gridlocked in Chinese ports, and the lockdowns also block trucks from reaching the ports, all of which could mean a surge in demand will hit later in the year.
- Trucks are gridlocked at the U.S.-Mexico border due to the closing of some of the busiest trade bridges there and Texas Governor Gregg Abbot’s new inspection policy. While that only lasted from April 6-15, it’s expected to slow traffic into the U.S. for weeks.
- On the northern U.S. border, Canada’s vaccine mandates eliminated about 10% of drivers, which has led to an estimated 64,000 fewer loads per week crossing into the U.S. as well as higher costs.
- Diesel fuel prices keep rising.

Vanderboom also pointed to a few clouds further out on the horizon:

- The average age of truckers is about 52 years.
- There continues to be a shortage of truckers — approx. 80,000 in 2021.
- The Longshore & Warehouse Union/Pacific Maritime Association contract expires July 1 this year.
- The UPS contract ends in July 2023.
- Trucking insurance premiums are 47% higher than 10 years ago, and continue to rise.

**USPS new network.** On a brighter note, Mike Plunkett, President & CEO of PostCom, Hamilton Davison, ACMA President & Executive Director, and Quad Postal Affairs Director Bob Schimek had a panel discussion about industry-led initiatives under way to help the USPS improve mail flow. They focus on streamlining the network by looking at cost drivers in different workflows,” Davison said.

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This led to a recommendation to process mail based on shape, not category. Plunkett noted that the two issues are connected. "Once you did a deep dive on flats, we found that you can't separate that from network issues," he said.

Many more solutions to current mail issues were discussed during the conference. Visit [quad.com](https://quad.com) for a complete [program](#) and copies of the [presentations](#).

### **USPS reports \$1.7 billion loss, higher operating revenues for Q2**

The USPS reported an adjusted loss of \$1.7 billion for the second quarter of its fiscal year (Jan. 1-Mar. 31, 2022), but operating revenue growth of \$896 million, a 4.7% increase. The adjusted loss was essentially flat with the 2021 Q2.

The 4.7% growth to \$19.8 billion in total operating revenue for the quarter came as mail volume across all categories grew 2.9% to 31.5 billion. Volume included over 320 million COVID-19 tests delivered to consumers in the quarter. However, Shipping & Packages, Periodicals and International mail volumes all dropped.

In its Q2 earnings release, the USPS credited "optimization of its pricing strategies and effective use of its pricing authority" for being able to continue to grow mail services revenue.

A strengthening U.S. economy was reflected in higher **Marketing Mail** volume during the quarter. Volume rose 8.4% to 15.8 billion. The category's revenue grew even more, 15.9% to \$3.7 billion. **Shipping & Packages** revenue was also up, 1.3% to \$7.9 billion. But volume fell 5.0% to 1.8 billion from 1.9 billion in the same period last year.

Citing price increase, the Postal Service said **First Class Mail** revenue grew almost 5% to \$6.3 billion despite a 0.6% decline in volume to 13 billion. First Class volume remains below pre-pandemic levels, and the USPS said it expected "continued secular declines" in this category.

The USPS noted that the positive changes contained in the postal reform bill signed into law in April, like the repeal of retiree health benefits prefunding and cancellation of past-due amounts, weren't reflected in the Q2 results.

However, rising inflation did affect the Postal Service's Q2 operating expenses, the agency said. Excluding non-cash workers' compensation adjustments and discount rate changes, total operating expenses rose \$908 million or 4.4% in the quarter, driven largely by ongoing inflation.

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## USPS volume

Mail volume for week ending  
April 30 compared to last year:

*Total Volume:* ▼ 2.8%  
*Packages:* ▼ 8.1%  
*Single Piece:* ▼ 6.4%  
*Presort First Class:* ▼ 7.4%  
*Marketing Mail:* ▲ 8.9%  
*Periodicals:* ▼ 28%

Mail volume for week ending  
April 23:

*Total Volume:* ▼ 2.6%  
*Packages:* ▼ 10.2%  
*Single Piece:* ▼ 3.6%  
*Presort First Class:* ▼ 8%  
*Marketing Mail:* ▲ 4.7%  
*Periodicals:* ▼ 0.3%

(Note: Typically, Easter (April 17 this year) has some impact on mail volume, including a spike in First Class Letters (Easter cards), coupled with a possible drop in business mail because some businesses are closed the Friday before Easter.)

Mail volume for week ending  
April 16:

*Total Volume:* ▼ 0.6%  
*Packages:* ▼ 6.1%  
*Single Piece:* ▲ 3.9%  
*Presort First Class:* ▼ 3.1%  
*Marketing Mail:* ▼ 1.3%  
*Periodicals:* ▼ 7.5%

Mail volume for week ending  
April 9:

*Total Volume:* ▲ 4%  
*Packages:* ▼ 7%  
*Single Piece:* ▲ 6.5%  
*Presort First Class:* ▲ 1.8%  
*Marketing Mail:* ▲ 12.4%  
*Periodicals:* ▲ 45.7%

Mail volume for week ending April 2:

*Total Volume:* ▼ 3.4%  
*Packages:* ▼ 9.2%  
*Single Piece:* ▼ 9.3%  
*Presort First Class:* ▼ 2.1%  
*Marketing Mail:* ▼ 1.2%  
*Periodicals:* ▼ 5.2%

Miscellaneous updates

- In mid-May, as expected, the Senate voted to confirm two **new Postal Governors**, Dan Tangherlini, the former head of the General Services Administration, and Derek Kan, a former Deputy Director of the Office of Management and Budget. Tangherlini now becomes chair of the Board. Ken replaces Governor John Barger, who had been in his holdover year and will depart the Board.
- The **Consumer Price Index** (CPI-U) increased 0.3% in April on a seasonally adjusted basis after rising 1.2% in March, the first slowdown in inflation since August 2021. The all-items CPI rose 8.3% for the 12 months ending in April, before seasonal adjustment, the U.S. Bureau of Labor Statistics reported, slightly down from 8.5% for the 12 months ended in March but still near record highs.

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- Service standard changes for **First Class Packages** took effect May 1.
  - April 26 was the **Los Angeles international facility's** last day of service. Now international mail needs to go to Carson City, Nev..

## PAPER

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- The strike at UPM paper mills in Finland has ended and employees have returned to work. The strike covered UPM Pulp, UPM Communication Papers, UPM Specialty Papers, UPM Raflatac and UPM Biofuels units in Finland. UPM will restart customer deliveries as soon as possible.
- At ND Paper's Biron, Wisconsin mill, the company will be converting its B26 paper machine at the end of 2022 from coated mechanical papers (coated #4 and coated #5 grades) to lightweight, high-strength recycled packaging products. This will remove another 25% of North American production capacity in these grades.
- Verso Corp. has completed its merger with Billerud, a packaging company based in Sweden. Billerud is one of the largest providers of paper and packaging, now operating 10 production facilities in Sweden, the U.S., and Finland. It employs approximately 5,800 people in more than 13 countries
- Paper producers continue to raise prices for all grades, and there is no sign yet of that letting up. Current market conditions have paper mills oversold and continuing to experience cost inflation. Paper prices will not ease until reductions in demand and/or an economic downturn permit.

## LOGISTICS

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Overall the freight market continues to stabilize and with it our production performance and delivery performance have continued to improve. We continue to see better performance in both the Truckload and the LTL market.

The exception is that Canadian shipments remain a challenge, with both price and delivery issues. These are directly related to the reduced supply of available carriers/equipment to take our product to Canada.

And the steep upward climb of diesel prices is a growing problem. As of May 9, diesel's on-highway price per gallon (including taxes) was \$5.623, according to the [U.S. Energy Information Administration](#), up 55.6% since early January and 76.5% from a year ago.

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

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See how we can help.

     866.824.2869  [info@quad.com](mailto:info@quad.com) [Quad.com](http://Quad.com)

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