

Mailers Hub News

January 2024 Summary *From the January 1, 15, and 29 issues*

“Adders” Driving April Price Increase

Even though the most recent Postal Service price increase took effect in mid-January effect, according to its own announced schedule the agency will be filing for another semi-annual rate increase in early April, to be implemented in July.

Postmaster General Louis DeJoy has committed to the twice-a-year schedule until the USPS breaks even financially. Given the \$6.5 billion loss in Fiscal Year 2023, the planned \$6.3 billion loss in FY 2024, and the underwhelming financial results so far in FY 2024, “break even” is ever more elusive.

Five factors will contribute to the size of the next increase: the CPI (calculated by the Bureau of Labor Statistics); any remaining rate authority left over from the October 2023 filing; and the three “adders” authorized by the Postal Regulatory Commission in November 2020 (“density,” “retirement,” and “non-compensatory”).

After three months, the Postal Service’s calculated CPI-based rate authority is 0.829%. Though the final amount of CPI-based authority won’t be determined until after the February CPI is announced in March, the agency’s *annualized* rate authority has been decreasing since November 2022 and the CPI itself has fallen from its August 2023 level.

The Postal Service’s “bank” of leftover rate authority is virtually nil: 0.001% for all classes except Periodicals (0.000%). Given that the USPS routinely leaves a small amount in its “bank,” whatever is there now likely will remain next time.

The majority of the April increase will derive from the notorious “adders” that have propelled the lion’s share of rate growth since 2021. The “adders” are calculated by the Postal Service and reported in the *Annual Compliance Review* that the agency is required to file before the end of the calendar year. The calculated “adders” are verified by the PRC and finalized in the *Annual Compliance Determination* that it must issue before the end of March. Because the calculations are very specifically prescribed, barring any errors what the USPS reports are likely to be the official numbers.

Among the workpapers submitted with the Postal Service’s *ACR*, filed late in the afternoon of December 29, was the spreadsheet showing the “adders” calculated by the Postal Service that will be available to it in 2024: 4.312% and 1.820% in “density” and “retirement” rate authority, respectively. The “non-compensatory” adder is a fixed 2%. So, with four of the five factors determining the potential size of next April’s price increase now known, and three months’ additional CPI-based authority yet to be determined, even now the April increase is shaping up to be over 7%:

| Class | CPI <i>3-month</i> | Bank | Density | Retire- ment | Noncom- pensatory | Total Auth |
|--------------|-----------------------|--------|---------|-----------------|----------------------|---------------|
| First-Class | 0.829% | 0.001% | 4.312% | 1.820% | n/a | 6.962% |
| Marketing | 0.829% | 0.001% | 4.312% | 1.820% | n/a | 6.962% |
| Periodicals | 0.829% | 0.000% | 4.312% | 1.820% | 2.000% | 8.961% |
| Package Svcs | 0.829% | 0.001% | 4.312% | 1.820% | n/a | 6.962% |
| Special Svcs | 0.829% | 0.001% | 4.312% | 1.820% | n/a | 6.962% |

That would bring the total rate increase that DeJoy has sought during his tenure to well over 30%.

| Class | Aug 21 | Jul 22 | Jan 23 | Jul 23 | Jan 24 | Jul 24 | Total |
|-------------|--------|--------|--------|--------|--------|--------|---------------|
| First-Class | 6.814 | 6.506 | 4.200 | 5.378 | 1.970 | 6.962 | 31.830 |
| Marketing | 6.815 | 6.500 | 4.203 | 5.381 | 1.962 | 6.962 | 31.823 |
| Periodicals | 8.806 | 8.540 | 4.200 | 8.122 | 1.959 | 8.961 | 40.588 |
| Pkge Svcs | 8.806 | 8.511 | 4.197 | 5.379 | 1.961 | 6.962 | 35.816 |
| Spec Svcs | 6.808 | 6.442 | 4.198 | 5.429 | 2.169 | 6.962 | 32.008 |

Please note that the CPI-based authority will be higher in April, so the figures in italics above will increase once that final figure is included in the calculations.

In another document filed December 29, the USPS gave notice of its plans for future price increases. According to the filing, in calendar years 2024 through 2026, “subject to the approval of the Governors,” the agency will file in April and October for increases to be effective the following July and January, respectively. The agency noted:

“The Postal Service intends to be judicious in the use of available pricing authority in these subsequent years depending on the success of the initiatives we are pursuing to grow revenue through improved product offerings and service, to improve

efficiency and to reduce costs, but anticipates the possibility that the price adjustment for each Market Dominant class may be required, and that **we may be compelled to apply most or all pricing authority** available at the time of filing if the above-described initiatives do not result in sufficient improvement in our financial condition.”

Despite its disingenuous comments about being “judicious” and “compelled”, if history is a guide, the Postal Service will again fail to achieve its goals for revenue and cost control, and ratepayers will once more suffer the consequences.

November Financials: Mediocre Early Holiday Season Results

As the opening month of the holiday season, November should be better than preceding months, building to what should be the best month of the year for USPS volume and revenue. Instead, November 2023 followed familiar trends of volume and revenue less than they were planned to be. Volume for the four market-dominant classes was lower – again – while competitive product volume, which, according to the PMG’s 10-Year Plan, is expected to grow as a source of volume and revenue, was up less than planned. Total revenue was 1.0% less than planned, while expenses exceeded plan by 8.9%, driven by an \$782 million unfavorable swing in the workers’ comp liability. The result was a net loss for the month of \$1.110 billion, wiping away the small surplus in October, and yielding a \$1.017 billion loss for the year to date – after only two months.

Total market-dominant mail volume was down 8.7% compared to the same month in 2022. First-Class Mail volume fell by 5.2% but Marketing Mail more than doubled that, down 11.1% compared to November 2022. Meanwhile, competitive products volume was up 5.6%. Total USPS volume was 10.114 billion pieces, down 7.9% from 2022.

First-Class Mail: 3.673 bln pcs, **-5.2%**; 7.463 bln pcs, **-5.6%** YTD
Marketing Mail: 5.398 bln pcs, **-11.1%**; 11.278 bln pcs, **-16.8%** YTD
Periodicals: 239.73 mln pcs, **-9.3%**; 491.52 mln pcs, **-6.6%** YTD
Total Mkt Dom: 9.495 bln pcs, **-8.7%**; 19.479 bln pcs, **-12.3%** YTD
Total Competitive: 597.3 mln pcs, +5.6%; 1.157 bln pcs, +6.5% YTD
Total USPS: 10.114 bln pcs, **-7.9%**; 20.679 bln pcs, **-11.5%** 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, was 0.2% *lower* than November 2022. USPS operating revenue for the month was \$6.910 billion, with the components mixed:

First-Class Mail: \$2.051 bln, +2.9%; \$4.183 bln, +2.8% YTD
Marketing Mail: \$1.438 bln, **-3.2%**; \$3.015 bln, **-8.5%** YTD
Periodicals: \$78.80 mln, **-1.7%**; \$160.86 mln, +1.6% YTD
Total Mkt Dominant: \$3.892 bln, **-0.2%**; \$8.025 bln, **-1.7%** YTD
Total Competitive: \$2.890 bln, +3.9%; \$5.556 bln, +4.0% YTD
Total USPS: \$6.910 bln, +1.4%; \$13.828 bln, +0.4% YTD

Total “controllable” compensation and benefit costs in November were \$5.046 billion, 0.7% under plan but 3.8% higher than November 2022; total expenses were \$8.100 billion.

Decreasing mail volume wasn’t reflected in similarly fewer workhours; workhour usage was only 0.2% under plan, and only 2.0% below November 2022. Total workhours for the year were 0.7% over plan but 1.8% below SPLY YTD. However, despite less work, the Postal Service is still expanding its workforce, and committing to more career employees.

Month’s end complement: 648,000 employees (526,597 career, 121,403 non-career) **+0.64%** compared to last November (643,873 employees: 516,646 career, 127,227 non-career), but **1.93% more** career workers.

Compared to pre-pandemic November 2019, total USPS volume was down 20.62% (market dominant 22.28% lower; competitive up 32.50%), while revenue, after many price increases, was up only 14.6%; despite significantly less mail, total workhours were down only 3.1% from three years ago.

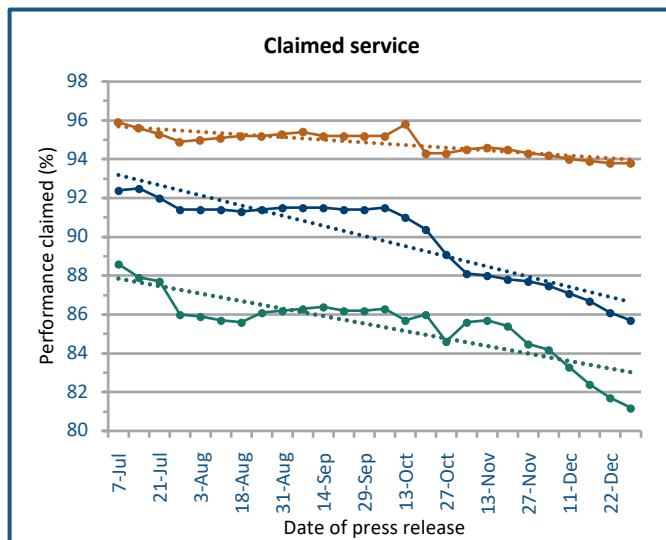
Data Reveals Worsening Service

Despite regular claims of “steady” service, the Postal Service’s own data shows that the only steadiness of service is in its worsening.

Though the agency has granular service performance data, by weeks and months if not days; by geographic area if not by ZIP Code and processing facility; and by specific products within the classes of mail, what it chooses to share publicly is homogenized to mask when, where, and for what mail service is the worst. The weekly press releases it’s been issuing since 2021 are an example of such statistical blending.

However, despite the positive spin the agency always seeks to apply to its messages, the numbers can’t be made

to tell a different story. Showing that data in a chart, the trend is clear.



The orange, blue, and green lines (and trendlines) are for Marketing Mail, First-Class Mail, and periodicals, respectively, and the plot points correspond to the weekly data in the adjacent chart.

Since November 13, the Postal Service has been claiming “operational disruptions within our network” such as the insourcing of several surface transfer centers and the “extended shutdown of a critical St Louis (MO) processing facility ... have and will continue to negatively impact our service performance scores.” At that time, the “disruption” was to last two weeks; later that became through the end of the month; and now, in the most recent release, through the end of December. “Significant growth in package volume” is also being blamed, despite the agency allegedly being ready to handle the peak season rush.

Nonetheless, the USPS continues to assert it has “effectively managed these expected increased package volumes along with the unexpected network disruptions ... which evidences our ability to rapidly adjust to all conditions.”

... which evidences our ability to rapidly adjust to all conditions.”

Despite the Postal Service’s claim of an “ability to rapidly adjust,” the “disruptions” in November seem to persist in their impact on service – and those “disruptions” can’t be used to explain the service decline *before* mid-November. Louis DeJoy’s publicists need to get their story straight.

USPS to PRC: MYOB

It’s understandable that there should be a natural tension between a regulator and the regulated, and that’s always been the case between the Postal Regulatory Commission and the Postal Service. Even so, there would be periodic briefings and discussions, and the relationship was civil. However, under Postmaster General Louis DeJoy, that relationship, at least from the Postal Service’s side, has become adversarial, confrontational, and anything but civil.

DeJoy has been outspoken in his dislike for the PRC, considering it unnecessary and an impediment to the advancement of his agenda. Not a fan of operational transparency, DeJoy resents when someone tries to learn more about what the USPS is doing than he wants to reveal – which is usually nothing – and that applies especially to the PRC.

A prime example of this is ongoing; as operational changes under his 10-Year Plan have accelerated, concerns in the mailing community have as well, driven in part by the lack of communication from DeJoy and his cabal about what’s being done and how it will impact mail preparation and postage.

Responding to such industry concerns, the commission opened a public inquiry docket last April 20 (PI2023-4). In the order establishing that docket, the PRC stated

“... the Commission notes that stakeholders have expressed concerns regarding a lack of a forum to explore the impacts of these proposed changes. The Commission previously found that an advisory opinion on the entirety of the Postal Service Strategic Plan was not warranted. 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.”

Needless to say, DeJoy did not appreciate having the PRC or ratepayers nosing around in what he was doing. His lawyers had earlier argued that The Plan – despite being a plan – was not a unitary blueprint that would impact service nationwide (and thus be subject to PRC review) but simply a set of separate but related initiatives (that, thus, are not reviewable).

Nonetheless, over the eight months that the docket has been open, the commission has asked a series of questions (as Chairman’s Information Requests), some self-initiated and some in reaction to motions by outside parties. The USPS has duly answered those questions, usually with just enough information to be responsive.

On December 20, the PRC filed ChIR No. 7 asking about transportation changes and related costs associated with

establishment of the sorting and delivery centers. Those questions apparently exceeded DeJoy's limited tolerance. In an exceptionally combative "motion for reconsideration" filed January 2, his legal team conveyed the his displeasure:

"On December 20, 2023, Chairman Kubayanda issued Chairman's Information Request No. 7 ("ChIR No. 7" or "ChIR"), which exceeds both the stated bounds of this docket as well as the scope of the Commission's authority. The Postal Service has answered, and will continue to answer, information requests issued in this docket, to the extent that they are appropriately within the Commission's authority and the legitimate scope of this docket. As explained more fully below, that is not the case with this request. Therefore, pursuant to 39 C.F.R. § 3010.165, the Postal Service respectfully requests that the Commission reconsider and withdraw ChIR No. 7, as it is based on a material error of law."

The agency's 20-page rejection of the PRC's questions expanded its assertion that the commission had no business, and the scope of the inquiry would not justify, asking for what was requested. Doing so, the USPS claimed, "unjustifiably intrudes on Postal Service managerial independence."

Observers often criticize the PRC for being cautious if not timid in asserting its role as a regulator. Accordingly, how the PRC will respond to the DeJoy's defiance remains to be seen, but the gauntlet clearly has been thrown down.

If it backs down in this situation, critics will feel validated; perhaps worse, DeJoy will feel even more emboldened to act indifferently toward the commission and its authority. Conversely, if it denies the USPS motion, the agency might take it to court, initiating a likely months-long battle during which DeJoy would continue to operate as opaquely as possible.

DeJoy has argued in the past that ratepayers don't need the PRC to protect them from the USPS, but his opposition to acting transparently would suggest otherwise.

Do More Contracts Mean More Packages? – Analysis

A key element of Postmaster General Louis DeJoy's 10-Year Plan is the growth of the agency's package volume and revenue to offset the decline of traditional hard-copy mail. To do so, the USPS has been tweaking its package products to simplify them and align them to what's offered by competitors in the marketplace.

Data about new competitive product contracts during the last three months of calendar 2023 (Postal Quarter 1 of the 2024 fiscal year) suggests that the Postal Service may be making some headway, or at least had a good quarter. The number of competitive product contracts that were approved by the Postal Regulatory Commission, based on data from the PRC's website, shows that, in PQI/FY 2024, 136 new contracts were approved – the same as for all of FY 2021 – compared to 105 over the same period a year earlier. On the other side of the ledger (in red, below), terminated contracts were significantly fewer.

Over the period FY 2021-FY 2023, there were 539 contracts approved, but 599 contracts were terminated. So far in FY 2024, however, the balance is more favorable, with the thirteen quarter totals of new (835) and terminated (836) contracts drawing almost equal.

| FY | PQ I | | PQ II | | PQ III | | PQ IV | | FY Total | |
|-------|------|-----|-------|----|--------|-----|-------|----|----------|-----|
| 2021 | 57 | 66 | 25 | 63 | 27 | 106 | 27 | 44 | 136 | 279 |
| 2022 | 37 | 40 | 11 | 35 | 22 | 21 | 55 | 49 | 125 | 139 |
| 2023 | 105 | 41 | 30 | 40 | 40 | 45 | 102 | 55 | 277 | 181 |
| 2024 | 136 | 68 | -- | -- | -- | -- | -- | -- | -- | -- |
| Total | 335 | 215 | | | | | | | | |

However, the number of contracts doesn't translate directly into actual package volume. According to the Postal Service's quarterly *Revenue, Pieces, and Weight* reports filed with the PRC, competitive product volume has shown a different pattern. (The Postal Service hasn't yet released its *RPW* for PQ I/FY 2024.)

| FY | PQ I | PQ II | PQ III | PQ IV | FY Total |
|-------|-----------|-----------|-----------|-----------|-----------|
| 2021 | 2,091,684 | 1,772,532 | 1,763,065 | 1,627,483 | 7,254,759 |
| 2022 | 1,908,125 | 1,682,753 | 1,674,794 | 1,627,270 | 6,892,942 |
| 2023 | 1,849,843 | 1,602,791 | 1,634,841 | 1,659,214 | 6,746,688 |
| 2024 | -- | -- | -- | -- | -- |
| Total | | | | | |

The consistent pattern of year-over-year loss of competitive product volume over the FY 2021-FY 2023 period, compared to the variability of new and terminated contracts, suggests not only that the number of contracts gained or lost isn't a reliable indicator, but that the volume of individual contracts varies widely.

The USPS share of what it considers "large" and "small" packages is about the same – around 20% of the market – but its share of "medium" sized items is much less – about 5%. Accordingly, absent any information from the

Postal Service, it's not possible to discern from the data that is available publicly either which segments have had the most (or least) growth or loss, or where the USPS is concentrating its efforts to build volume.

Regardless, gaining new package business is one thing, providing service sufficient to retain it is something else.

Mailers Hub News™ and this summary are produced by Mailers Hub LLC and provided to subscribers as part of their subscription. No part of *Mailers Hub News* or this summary may be reproduced or redistributed without the express consent of Mailers Hub LLC. Copyright © 2016-2024 Mailers Hub LLC. All rights reserved.