

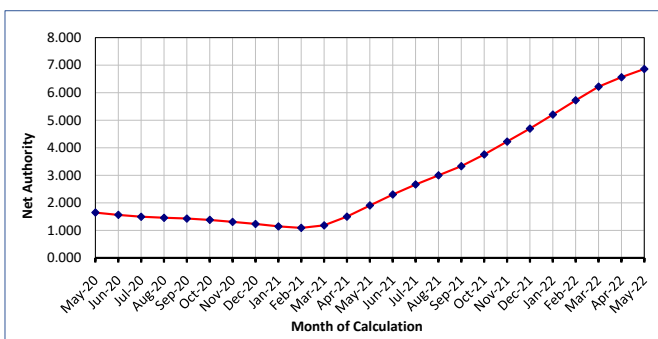
Mailers Hub News

July Summary *From the July 4 and 18 issues*

Climbing CPI Threatens Another Big Rate Increase

PMG Louis DeJoy’s zealous pursuit of maximum rate increases is getting a lot of help from the surging Consumer Price Index issued monthly by the Bureau of Labor Statistics. The CPI has been increasing since November 2020, and has grown by two points or more eight times over the span.

(As all commercial ratepayers should know, the CPI is used in a formula to determine the Postal Service’s rate authority. Three formulas are available: for an annual increase (i.e., twelve months after the previous increase) and for filings more or less than a year apart. In addition to authority under the CPI cap, the USPS can apply any “banked” authority unused in a previous rate filing and, since November 2020, based on a decision by the Postal Regulatory Commission, three further factors: “density,” “retirement,” and “non-compensatory.”)



The CPI cap is a twelve-month rolling average which tends to smooth the month-to-month variations in the CPI itself, but the month-to-month change in the cap still reflected the overall trend of the index as did the resulting calculated cap.

Last April, when the agency filed for the increase that takes effect next Sunday, the CPI had been climbing sharply, yielding available CPI authority of 5.135% even though it had been less than a year since the preceding price change.

Docket	Date	Effective	CPI Cap %	Density %	Retirement %	Total *
R2018-1	10/6/2017	1/21/2018	1.987			
R2019-1	10/10/2018	1/27/2019	2.419	n/a	n/a	2.419%
R2020-1	10/9/2019	1/26/2020	1.900	n/a	n/a	1.900%
R2021-1	10/9/2020	1/24/2021	1.458	n/a	n/a	1.458%
R2021-2	5/28/2021	8/29/2021	1.244**	4.500	1.062	6.806%
R2022-1	4/6/2022	7/10/2022	5.135**	0.583	0.785	6.503%

If, under the PMG’s plan for semi-annual increases, the agency files again in October (for rates to be implemented in January 2023), the soaring CPI is already indicating the USPS will have significant pricing authority from just the cap; after only two months, the calculated cap (for a less than annual increase) is already 2.059%.

* Excluding “banked” authority per class and 2% “non-compensatory” applicable to specific classes/categories
 ** Based on the formula for less-than-annual increase

While any “banked” authority may be added, the agency’s annual authority for 2022 under the “density” and “retirement” adders has already been used. Whether the USPS will file in October, and what its rate authority at that time might be, remains to be seen, but the trend so far isn’t encouraging.

Competitive Contracts: Trend Not Showing Growth

The PMG’s 10-year Plan assumes package volume will grow and provide a critical source of revenue to offset a projected \$160 billion loss. As we’ve reported previously, the trend of competitive product contracts isn’t supportive of such rosy expectations. Data available from the Postal Regulatory Commission shows that, from January 1, 2020, through June 30, 2022, 48.2% more competitive product (CP) contracts were terminated than were approved. (Not all contracts are for the same products or equivalent volume, so changes in the number of contracts doesn’t necessarily correlate to proportional changes in net volume.) Nonetheless, in calendar 2022, the USPS has secured only 33 competitive product contracts while 56 were terminated (including 10 “early terminations”). As the PMG pursues packages (and turns away from hard-copy mail), price and service may explain the lack of shippers’ interest.

May Financials: Aside from PSRA Adjustment, Mixed Results

The Postal Service’s May financials continued to show the results of the Postal Service Reform Act of 2022, enacted early in April, that erased tens of billions in health care costs. Other than that, revenue and volume figures were generally lower, though Market-dominant mail volume and revenue were higher than last May thanks to Marketing Mail growth and higher prices. Meanwhile, competitive product volume fell again, continuing a downward trend. Transportation costs grew, as did the workers’ comp liability. With figures mostly normalized after last month’s one-time PSRA adjustment, May revenue was \$6.202 billion, and \$53.656 billion for FY 2022 to date, with a net loss of \$661 million for the month on net income of \$57,472 billion YTD (mostly “income” from the PSRA adjustment).

Compared to pre-pandemic May 2019, USPS volume is down 12.11% (market dominant volume 13.07% lower; competitive product volume up 19.56%). Meanwhile, despite the loss of mail volume, workhours are down only 1.62%, continuing the worrisome trend of more workhours, higher employee costs, and lower volume.

USPS Revises Competitive Parcel Products

In two filings submitted July 13 to the Postal Regulatory Commission, the Postal Service described changes it was making to its competitive parcel products.

The first filing, docketed as MC2022-81, concerned the Postal Service's request to remove USPS Retail Ground from the Competitive Product List. The second filing, docketed as MC2022-82, concerned a variety of classification changes for First-Class Package Service and Parcel Select designed to coordinate with the elimination of USPS Retail Ground. The same Governors' Decision and draft changes to the Mail Classification Schedule were included in both filings. As explained in the *Statement of Explanation and Justification* issued by the Governors of the USPS:

"The classification changes established herein are designed to simplify and streamline the Postal Service's ground competitive package offerings under one product. Beginning in January 2023, the existing First-Class Package Service product will be expanded to packages up to 70 pounds to establish an enhanced ground package product. The Retail and Commercial price categories within First-Class Package Service will still be maintained, and the Retail price category will retain its seal against inspection. The enhanced First-Class Package Service product will also include up to \$100 of insurance as well as cubic pricing tiers up to one cubic foot (1 cu. ft.).

"In accordance with these enhancements and to avoid redundant offerings, the USPS Retail Ground product will be removed from the competitive product list and the Parcel Select Ground price category will no longer be available within the Parcel Select product. Both offerings would be subsumed under the newly enhanced First-Class Package Service product. The Postal Service expects that its retail and commercial customers will all benefit from this simplified and streamlined ground package offering, and from the overall enhanced First-Class Package Service product."

As part of the second filing, the USPS summarized its proposed changes to the Mail Classification Schedule:

- "An expansion of the First-Class Package Service product weight limit (currently an ounce-based offering up to 15.999 ounces), up to 70 pounds.
- "The size (dimension) limitations for First-Class Package Service will be updated to align with the product consolidation.
- "\$100 of insurance will be included in the enhanced First-Class Package Service product.
- "Cubic pricing tiers will be added to the enhanced First-Class Package Service product, along with Oversized, Dimensional Weight, and Nonstandard Fees.
- "The Parcel Select Ground price category will be eliminated from the Parcel Select product to avoid redundancy. Both Parcel Select Ground and USPS Retail Ground will be subsumed under the newly enhanced First-Class Package Service product.
- "The Limited Overland Routes price category will be retained and shifted under First-Class Package Service.

"First-Class Package Service will continue to offer both Retail and Commercial price categories, and the Retail category will continue to be sealed against inspection."

Changes to the Mail Classification Schedule accompanying the filings indicated that commercial and retail prices for the weight cells not now included under First-Class Package Service "will be established at a later date." However, the prices and conditions for "limited overland routes" (Alaska ground service), oversized pieces, dimensional weights, and nonstandard fees were carried over from Retail Ground to First-Class Package Service.

Insight into Network Changes Given to USPS Employees, Not Customers

Ever since the issuance of Postmaster General Louis DeJoy's 10-year Plan, the commercial mailing community has been hoping to learn of his blueprint for making the Postal Service's infrastructure more efficient and less costly. Perhaps indicating his attitude toward ratepayers and commercial mail producers, when DeJoy decided to share some specifics on that subject he didn't do it with the industry or ratepayers, but instead in a five-minute video for employees released on July 5, posted July 6 on the USPS *Link* website. In the video, DeJoy offered some relative specifics:

"First, throughout the country, we are going to build or designate facilities of significant size to support a network of at least 60 new regional processing and distribution centers to accommodate the national movement of mail and packages. This new strategy will reduce redundant operations and transportation across the nation, saving us both time and money.

"Second, we will invest in most existing mail and processing facilities across the nation to improve the working environment and to enable them to conform to our new operating standards.

"Third, we will eliminate ad hoc facilities across the nation, put in place over the years to provide capacity without any clear strategy for long term efficiency and cost effectiveness.

"Fourth, we will repurpose and equip previously vacated facilities across the country to accommodate large and modernized delivery units to serve the American public more efficiently and effectively while positioning us to gain market share in the package delivery business.

"Fifth, we will create large delivery units in our mail processing facilities, again, reducing time and the cost of transportation

and provide better work environments for all our employees. [In a speech to PCC officials last week the PMG stated that the current approximately 19,000 delivery units would be reduced to about 11,000 as a result of the initiative.]

“And last, we will commit to a nationwide operating strategy with standard and measured operating practices in processing, transportation, and delivery. This will assure our cost effectiveness, service responsiveness, and revenue growth, thus securing our place in the future of our nation.

“We will be creating a modern national delivery platform to serve the nation for decades to come and building better places for our employees to work and have a career.”

USPS Ends Postage Reseller Programs

As reported July 15 by *Linn’s Stamp News* and July 16 by *eCommerce Bytes* – and without any publicity from the Postal Service – the agency has ended its decades-old postage reseller program. Under contracts with the USPS, a handful of third-party companies had been authorized to offer discounted rates for using USPS shipping services, such as Commercial Base prices that are below the full-rate alternatives. Regardless of the lack of visibility surrounding the Postal Service’s action, some observers offered a more bottom-line perspective. They opined that the USPS – and especially PMG Louis DeJoy – concluded the resellers were siphoning off package volume that the Postal Service should be selling itself – and for which it should not have to share revenue.

PRC Opens Another Study of Flats Costs

As required by Section 206 of the *Postal Service Reform Act of 2022*, enacted April 6, the Postal Regulatory Commission is undertaking another study of USPS flats processing and costs. This required activity is far from the first examination of flats processing and costs, and thus of necessity likely will revisit familiar situations and redevelop past findings.

The costs and effectiveness of the Postal Service’s fleet of 100 flats sequencing system machines, a billion-dollar investment made on the cusp of sharp declines in flats volume, are likely to be featured. Similarly, the recurring revisions to flats preparation requirements (presort and containerization rules), facility variability in flats processing, and the impact of manual processing (of nonmachinable pieces) are also likely topics for examination.

In past issues of its *Annual Compliance Determination* the PRC has given recurring recommendations and directives about flats processing in reaction to the Postal Service’s chronic inability to control flats processing costs and enable cost coverage by the related rates. Accordingly, though whether anything new will result from the forthcoming study remains to be seen, the possibility seems unlikely that yet another study would reveal the elusive key to finally getting flats costs under control.

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