

USPS Update: The Outlook for Postal Legislation

Great Lakes AIM Meeting October 21, 2020

Topics

- Volume and revenue
- Operations
- Legislative issues
- Outlook
- Summary and information



Volume and revenue (through August)

Revenue and expense

- Total revenue: \$66.961 billion (+1.6% to plan, +2.0% to SPLY)
- Total operating expenses: \$75.632 billion (+4.1% to plan, +2.5% to SPLY) (including OWCP adjustment, retirement and prefunding payment)
- Net income/loss: -\$8.671 billion (SPLY: -\$8.130 billion)

Volume

- Total: 117.88 billion pieces (-7.0% to plan, -10.3% to SPLY)
- First-Class Mail: 48.56 billion pieces (-4.6% to SPLY)
- Marketing Mail: 57.95 billion pieces (-16.6% to SPLY)
- Periodicals: 3.70 billion pieces (-13.2% to SPLY)
- Shipping & Package Services: 6.15 billion pieces (+20.8% to SPLY)

Trends

- Pandemic-driven losses of traditional mail volume
- Continuing diversion, especially in retail First-Class Mail
- Persistent fixed costs (network, retail, delivery)
- Surging but uncertain growth in competitive products



Volume and revenue

- Volume has declined since late March
 - Rate of decline varies week-to-week but generally easing
 - Parcel volume growth easing
- First-Class Mail
 - Decline in single-piece mailing by individuals
 - Low proportion of discretionary mailings (recurring bills and statements)
- Periodicals
 - Very little discretionary volume (samples, promotional)
 - Scheduled distribution of subscriber/requester copies
- Marketing Mail
 - High proportion of discretionary volume
 - Advertising tied to retail and consumer activity
 - Nonprofit activity reflects ongoing/new need for donations
- Package Services/Competitive Services
 - Parcel volume reflects loss of retail access
 - Permanence of increase uncertain if stores reopen
 This information is the sole property of the presenter and is not approved or endorsed by USPS.



Operations

- Headquarters directives
 - Overtime
 - Control not curtail
 - OIG Audit
 - Employee availability
 - Carrier schedules
 - Departure/return time
 - Casing of mail
 - Field tests
 - Transportation
 - Schedules
 - Extra trips
 - CETs

- Processing equipment
 - Redundancy
 - Remaining fleet
- Collection boxes
 - Access
 - Removal/replacement
- Retail
 - Closure of facilities
 - Hours of operation
- Election mail
 - Capacity
 - Preparation concern



Legislative issues

- Initial stimulus package (CARES Act) provided limited support
 - No direct aid
 - Authorization for \$10 billion in borrowing
 - Conditions being attached to loan by Treasury
- Subsequent legislation has omitted USPS aid
 - Proposals for direct aid dropped
 - Union/industry pleas rejected
- Opposition from administration
 - Misinformation about parcel pricing
 - Hostility toward Amazon
 - Dissatisfaction with postal management



Legislative issues

- USPS being politicized
 - Board of Governors
 - Hiring process for PMG
 - Williams comments
- Congressional partisanship
 - Administration critics/allies
 - Hearings focus on partisan positions
 - Questions over independence of USPS management
- Concerns over election mail
 - PMG policy directives
 - Processing delays
 - Partisan allegations



Outlook - USPS

- Continued decline in mail volume
 - Numbers for PQIV (June-September) expected in mid-November
 - End-of-year FY2020 volume on track to be 10-20% below SPLY
 - Return of volume not expected until FY2021
- Significant revenue impact
 - FY2020 loss forecast to be \$13 billion
 - Actual losses March-August smaller than expected
 - Parcel revenue has more than offset losses from mail
- Other financial problems continue
 - Current burn rate (\$2 billion biweekly payrolls)
 - Out of cash projections vary from late 2020 to mid-2021
- Cost control remains difficult
 - Limited opportunities to shrink infrastructure
 - Mandated services
 - Labor inflexibility



Outlook – cost control

- Limited opportunities to shrink infrastructure
 - Congressional mandate for six-day delivery
 - Ban on closing unprofitable post offices
 - Service expectations
- Labor inflexibility
 - Contractual "no-layoff" clauses
 - Limitations on part-time/non-career workers
 - Guaranteed raises, COLAs
 - Ban on "crossing crafts"
- Limited options for pricing
 - Price increases
 - Ratesetting and classification rules



Outlook – volume and revenue

- Continued decline in mail volume
 - Numbers for PQIV (June-September) expected in mid-November
 - End-of-year FY2020 volume on track to be 10-20% below SPLY
 - Return of volume not expected until FY2021
 - Post-pandemic volume initially projected to be 25% below pre-pandemic
- Significant revenue impact initially projected
 - FY2020 loss forecast to be \$13 billion
 - Actual losses March-August smaller than expected
 - Parcel revenue has more than offset losses from mail
 - USPS no longer issuing loss estimates
- Financial problems continue
 - Current burn rate (\$2 billion biweekly payrolls)
 - Out of cash projections vary from late 2020 to mid-2021



Outlook – regulatory

- Decennial review of ratesetting process
 - Second rulemaking unfinished
 - Resistance to changing cap limitations
 - Does not address underlying issues
- Price increase
 - Annual pattern
 - October filing, based on August CPI
 - Class-level cap at 1.458%
 - Late January implementation
 - Structural/classification changes unpublicized
- Cost coverage
 - Current "underwater" categories
 - Flats generally
 - FY2020 Annual Compliance Review



Outlook – commercial mailers

- Continued pressure on commercial mailers
 - Client uncertainty
 - Decreased advertising budgets
 - Migration out of the mail
- Variable business impact
 - Pre-existing financial condition
 - Diversification of business
 - Access to capital
 - Operational flexibility
 - Availability of labor
- Survivability
 - Business pre-planning
 - Cash/debt management
 - Unforeseeable factors



Summary

- Volume/revenue loss will continue through 2020
- Retention of parcel volume/revenue uncertain
- Financial situation remains unstable
- Legislative relief not anticipated
- Infrastructure not easily amenable to proportional rightsizing
- Industry contraction likely



Information

- MailersHub.com/covid-19
- Mailers Hub News
- USPS Industry Alerts
- USPS DMM Advisories





Questions

www.MailersHub.com www.MailersHubWebinars.com 503-482-4636 info@MailersHub.com