Update on USPS Performance & 10-Year Plan

Supplement to "Achieving Financial Stability Without Excessive Rate Increases: A Review of the USPS Strategic Plan "Delivering for America."

April 2022

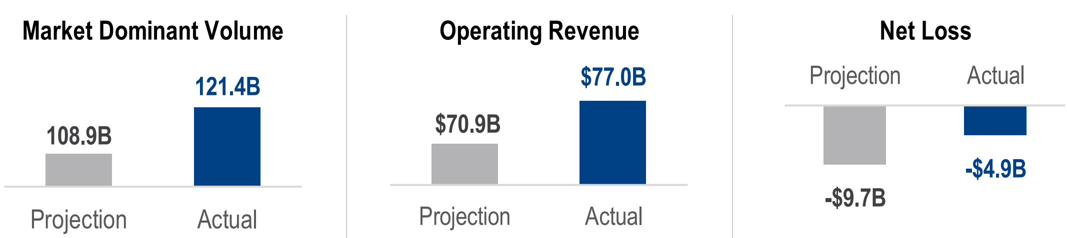
Last year, we released "Achieving Financial Stability Without Excessive Rate Increases: A Review of the USPS Strategic Plan "Delivering for America."[1] Our research found that most of the initiatives in "Delivering for America," the U.S. Postal Service ("USPS") 10-year strategic plan, align with USPS's vision and mission, but raising rates above CPI does not. This action ultimately hurts, not helps, USPS customers and the USPS bottom line. To reach financial stability in the long term, USPS should focus on maximizing revenue not by excessive rate increases but by taking action to minimize volume declines, such as maintaining consistent rates, avoiding sudden drastic price increases, and striving for high service standards. Our 2021 analysis showed that USPS can achieve financial stability without raising rates and that USPS performance had exceeded expectations.

In April 2022, we examined USPS financials and publications to assess USPS mail volume, revenue, and net income in FY2021 and FY2022 year-to-date. Our new research confirms that the conclusions in our 2021 report still stand.

Three key findings are:

1. **USPS outperformed its FY2021 projections.** Our 2021 analysis concluded that USPS FY2021 projections, which serve as the basis for the strategic plan outlined in "Delivering for America," were far too pessimistic, resulting in inaccurate predictions about future performance. USPS fiscal year-end data proved that was the case. Market dominant mail was nearly 12.6 billion (12%) higher than projected, which resulted in additional income for USPS. In FY2021, operating revenue was nearly $6.2 billion (9%) above the USPS projection, and, all told, the actual net loss was almost $4.8 billion (50%) less than projected. (Figure 1)

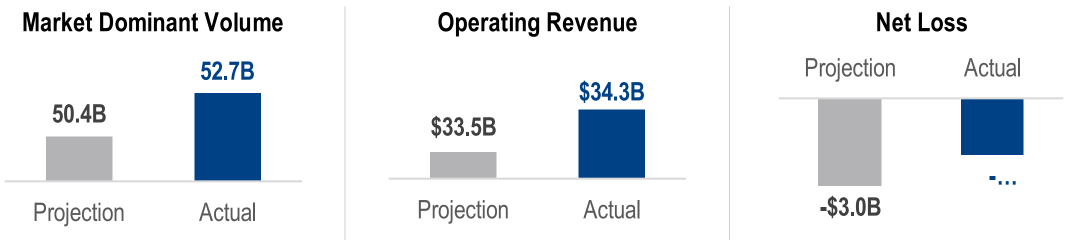
Figure 1.
USPS FY2021 Performance Far Outpaced Projections[2]



[1] Pham, Nam and Mary Donovan. 2021. "Achieving Financial Stability Without Excessive Rate Increases: A Review of the USPS Strategic Plan "Delivering for America"." ndp | analytics.
[2] USPS. Preliminary Financial Information (Unaudited), September 2021.

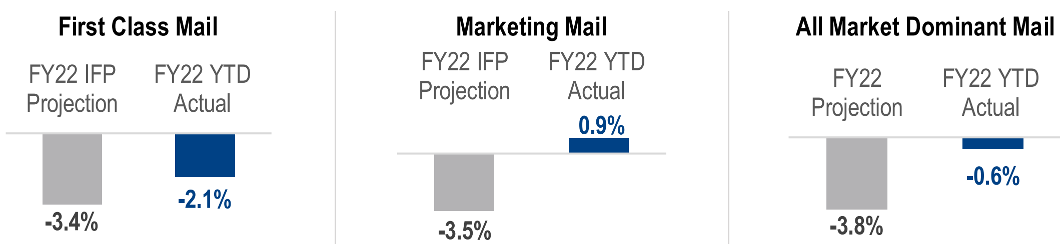
2. **To date, USPS has exceeded its projections for FY2022.** USPS continues to experience better-than-expected market-dominant mail performance, contributing to higher revenue and a better overall financial position. Five months into the fiscal year, market-dominant mail volume is nearly 2.3 billion pieces (4%) higher than projected. Operating revenue year-to-date is nearly $800 million (2%) above its projections, and, all told, the actual net loss is about one-third ($1.0 billion) less than projected. (Figure 2)

Figure 2.
USPS FY2022 Performance Year-to-Date is Better-Than-Expected (Oct. 2021-Feb. 2022)[3]



3. **USPS should recognize the continued outperformance of market dominant mail and its importance to overall financial stability; Its 10-year projections and strategic plan should be updated accordingly.** "Delivering for America" and subsequent USPS publications, like the Integrated Financial Plan (IFP), are overly pessimistic about mail volume. Indeed, even a minor slowdown in decline can have a meaningful financial impact for USPS. To date, mail declines are lower than expected. For example, the IFP expects First-Class mail to decline over 3% from FY2021 to FY2022; to date, the rate of decline is 2.1%. The IFP projects that marketing mail will decrease more than 3% in FY2022. However, its volume year-to-date is almost 1% higher than the same period last year. According to the IFP, market dominant mail as a whole is expected to decline nearly 4% in FY2022; its current rate of decline is under 1%. USPS should consider these trends and revise its strategic plan and projections to promote mail and maximize its revenue potential. (Figure 3)

Figure 3.
USPS Market Dominant Mail Rate of Decline, Year-Over-Year[4]



[3] USPS. Preliminary Financial Information (Unaudited), Febuary 2021.
[4] USPS. 2021. Integrated Financial Plan FY2022; USPS. Preliminary Financial Information (Unaudited), Febuary 2021.