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

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Introduction

In 2021, the U.S. Postal Service ("USPS") released "Delivering for America," a 10-year plan to reach financial stability and improve operational performance after years of posting net losses and service disruptions. The plan includes a series of strategic initiatives intended to help the USPS increase revenues and contain costs by—among other things—securing legislative and regulatory changes that would allow for a more sustainable operating structure.

Many of the initiatives identified in the plan are much needed and long overdue, such as restructuring the USPS Retiree Health Benefits system and removing the federally mandated prefunding requirement. However, some elements of the plan, particularly the proposal to increase postage rates by more than the rate of inflation ("Above CPI"), are misaligned with USPS's vision and mission and will have negative – not positive – impacts on customers and, ultimately, on USPS's financial position. Excessive rate increases will only exacerbate volume declines. In order to reach financial stability in the long term, the USPS should focus on maximizing revenue not by excessive rate increases, but by taking actions to minimize volume declines, such as maintaining consistent rates and striving for high service standards. Our analysis shows that USPS can achieve financial stability without raising rates excessively and without the proposed August 2021 rate increases.

Background

USPS is one of the oldest service providers in the United States. As an organization, USPS has a universal service obligation to ensure that all Americans receive "a minimum level of service at a reasonable price." Households and businesses worldwide rely on USPS to deliver mail and packages across the United States.

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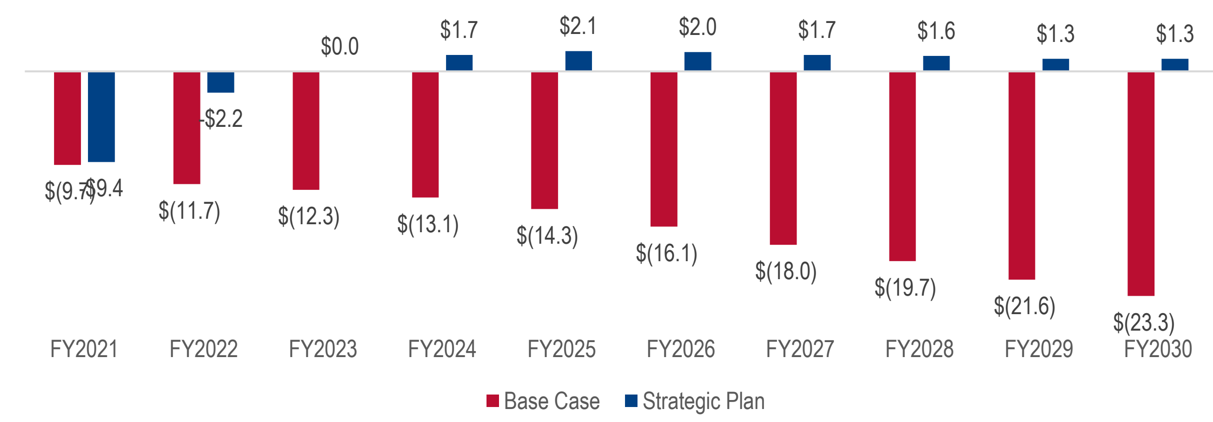
Moreover, the U.S. mailing industry, which centers around USPS, employs 7.3 million Americans across the country.[2] In 2020, USPS delivered 129.2 billion pieces of mail and served 231,579 delivery routes in urban, suburban, and rural communities.[3] However, on account of many factors, including the obligation to prefund retirement benefits, perpetual overrun costs, and declining mail volume, USPS's financial position has deteriorated over time. In fiscal years 2019 and 2020, USPS posted net losses of $8.8 billion and $9.2 billion, respectively.

USPS recently published a strategic plan titled "Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence" ("10-Year Plan"), which proposes a series of initiatives that fall into three broad categories: revenue improvements; management and cost savings initiatives; and legislative and administrative actions. According to USPS projections, these actions would reverse trends and generate positive net income starting in 2024, which would amount to a total of $0.2 billion in net income over 10 years. Without implementing the prescribed initiatives, USPS projects net losses of $9.7 billion in FY2021 which progressively worsen to the tune of $23.3 billion in FY2030—a period over which USPS projects it will accrue a total of nearly $160 billion in losses. (Figure 1)

Figure 1.
USPS 10-Year Base Case & Strategic Plan Net Income Projections[4]



Evaluation of USPS Strategic Initiatives & Projections

The estimates produced in the 10-Year Plan rely on assumptions that are either outdated or contrary to USPS's mission. Accordingly, the USPS projections of its financial performance over the next 10 years are

[2] USPS. "Postal Facts." Accessed July 1, 2021.
[3] USPS. "A Decade of Facts and Figures." Accessed June 10, 2021.
[4] USPS. 2021. "Delivering for America."

far too pessimistic. The USPS strategic initiative to increase rates above CPI will hurt USPS customers and exacerbate mail volume declines, ultimately worsening its financial position.

USPS Strategic Initiatives Should Align with Its Mission & Vision

The strategic initiatives set forth in the 10-Year Plan aim to achieve financial stability – an important and necessary goal. However, the mission of the Postal Service is more than simply balancing costs and revenues. The mission requires USPS to remain relevant and innovative to best serve its customers. As Postmaster General Louis DeJoy stated: “My vision is to establish the Postal Service as the preferred delivery service for the American public. I am committed to providing world-class, affordable and dependable service to every American home and business six and seven days a week — today, tomorrow and for generations to come.”[5] DeJoy’s perspective is consistent with the historic mission of USPS: “To serve the American people and, through the universal service obligation, bind our nation together by maintaining and operating our unique, vital, and resilient infrastructure.”

Specifically, USPS identifies several essential components to achieving its mission, which include: 1) providing frequent, reliable, safe and secure delivery of mail and packages to all Americans and 2) operating in a modern, efficient and effective manner that allows USPS to minimize what it charges for services.[6] (See Appendix for full mission).

For USPS to stay true to its mission, it must aim to at least maintain, but preferably grow its customer base by offering reasonable, predictable prices, and striving to provide excellent service. Fulfilling these objectives likely would lead to greater use of USPS services and, subsequently, higher revenues. Indeed, many of the USPS initiatives support long term customer satisfaction as well as financial stability. Of the nine strategic initiatives outlined in the 10-Year Plan, six align well with USPS’s mission and vision. Two initiatives, mail processing and transportation, mostly align with the USPS mission, however, reduction in USPS service standards and resetting the 24-hour clock may negatively impact customer service and overall service performance. Only one strategic initiative – market dominant rate increases above Consumer Price Index (CPI) – is completely at odds with the USPS mission. A significant rate increase would reduce the predictability of prices for USPS customers, deter use of USPS services, and lead to further volume decline. These outcomes are inconsistent with the USPS’s goals of providing world class service and achieving financial stability. (Table 1)

[5] USPS. 2020. “Postmaster General Highlights Vision to Establish USPS as Preferred Delivery Service for American Public.” September 24.
[6] USPS. “About the United States Postal Service.” Accessed June 2021.

Table 1.
USPS 10-Year Plan Strategic Initiatives & Alignment with USPS Mission & Vision[7]

Strategic Initiatives	Description	Align with Mission & Vision
REVENUE IMPROVEMENT INITIATIVES		
Competitive revenue growth	Offer innovative services; Leverage assets to expand services; Identify ways to improve margins; Align pricing to distance traveled	**Yes**
Market dominant rate increase	Allow above CPI increases for market dominant and underwater products	**No** – Excessive rate increases hurt customers and USPS
MANAGEMENT COST SAVINGS INITIATIVES		
Delivery	Maintain 6-day mail and 7-day package delivery; replace fleets; optimize efficiencies	**Yes**
Transportation	Align service standards, optimize network, minimize redundancies, modernize systems	**Mostly** – However, reducing standards degrades customer service
Mail processing	Reset 24-hour clock; Consolidate operations; modernize equipment and other plant automation	**Mostly**– However, reducing standards degrades customer service
Administrative functions	Realign into 3 national business units; Reduce non-transportation contractor spend	**Yes**
Retail	Align hours of operation to customer demands; Rationalize stations/ branches; Modernize retail lobbies	**Yes**
LEGISLATIVE & ADMINISTRATION ACTIONS		
Medicare integration	Integrate FEHBP with Medicare, update liability calculation, require enrollment; Eliminate prefunding	**Yes**
CSRS adjustment	Correct the longstanding, unfair allocation of CSRS benefits	**Yes**

Protecting Mail Volume in the Best Interest of USPS

Protecting mail volume is in the financial interest of USPS. Both businesses and households use USPS services. Businesses mail customers and vendors invoices, credit cards, sensitive insurance, health and other private information, marketing mail, packages, and other business information. Households send greeting cards, receive magazines and notifications, pay bills, and send and receive packages. (Table 2)

[7] USPS. 2021. Delivering for America.

Table 2.
USPS Customers & Examples of Activities

		Recipient		
		Business/ Nonprofits	Households	Government
Sender	Business/ Nonprofits	• Financial and insurance information • Invoices/payments • Orders • B2B marketing mail	• Coupons/promotions • Credit cards • Health, financial, and insurance information • Orders and subscriptions	• Tax forms/ payments • Permit/license applications
	Households	• Packages (returns) • Payments • Documents	• Greeting cards • Correspondence • Care packages/gifts	• Election ballots • Tax payments • Permit/license applications
	Government	• Tax/official forms • Permits/licenses • Notifications	• Notifications • Permits/licenses • Notifications	• Official documents

Despite declines in volume due to electronic diversion, mail is still relevant to millions of households and businesses. For example, about one in every four households continues to use mail for official business and transactions; in 2019, 27% of tax filings were submitted by mail, and 23% of bills were paid by mail.[8] Over the years – before a steep rate increase in 2019 – greeting card volume was growing annually. For magazines, 94% of subscriptions include a print copy.[9] Mail is also crucial to businesses, who rely on it to send invoices and payments, and to market their services to potential customers. In 2019, the Small Business Administration reported that direct mail is "hot" again because "younger consumers don't associate direct mail with 'junk mail' the way older consumers do. They're more likely to attach that label to email."[10]

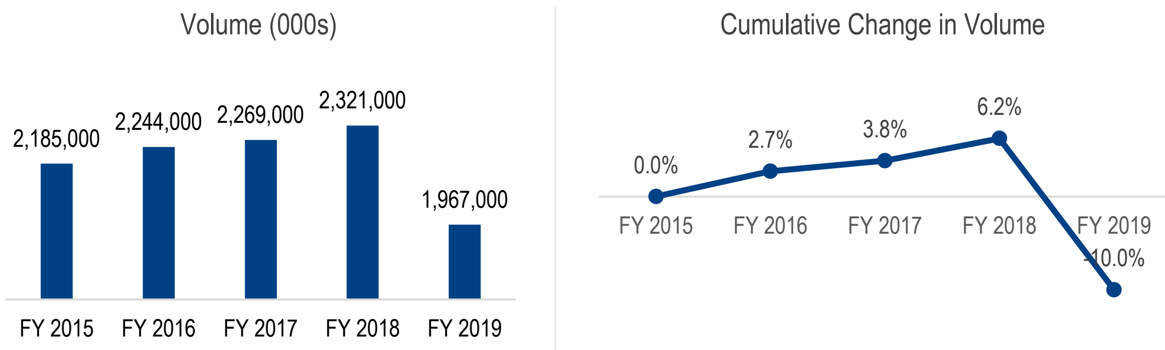
If USPS's strategic approach to market dominant products, which include First-Class mail, marketing mail, periodicals, package services, and other categories such as certified mail, aligned with its mission and vision, it would support and protect its current customer base to maximize revenue in the short and long term. While above-CPI price increases may boost revenue in the short term, they lead to further volume declines and lost customers in the long term. Indeed, a 2017 survey of major mailers found that the single most important action USPS could take to keep mailers using mail is providing stability in pricing.[11] Similarly, the study found that one of the top barriers for businesses sending communications to customers and prospects via the USPS was concerns about future rate increases. USPS can protect its customer base by implementing predictable and low rates.

[8] IRS. "Returns Filed, Taxes Collected & Refunds Issued." Accessed June 2021; USPS. 2020. Household Diary Study FY2019.
[9] Association of Magazine Media. 2020. Factbook 2020. Accessed June 2021.
[10] Lesonsky, Rieva. 2019. "Direct Mail is Hot Again. Here's How to Use It." Small Business Administration.
[11] Envelope Manufacturing Association Foundation and Keypoint Intelligence. 2018. "Assessing the Future of the Mailing Industry." October.

Sharp Rate Increases Result in Steep Volume Declines

Over the past decade, USPS has largely maintained CPI-only rate increases. However, there are instances where USPS proposed and enacted sharp increases in rates which, subsequently, led to substantial declines in volume. For instance, in January 2019, the rate for first-ounce stamp increased 10% from 50 cents to 55 cents. Before this rate increase was implemented, greeting card volume was growing; between FY2015 and FY2018, volume rose 6.2%. However, after the rate increase in FY2019, all gains were erased and greeting card volume dropped 10% below FY2015 levels. These rate declines cannot be explained by any other significant changes in economic factors or consumer behavior, which implies that the volume decline is most attributable to increased rates (see detailed analysis in Appendix). (Figure 2)

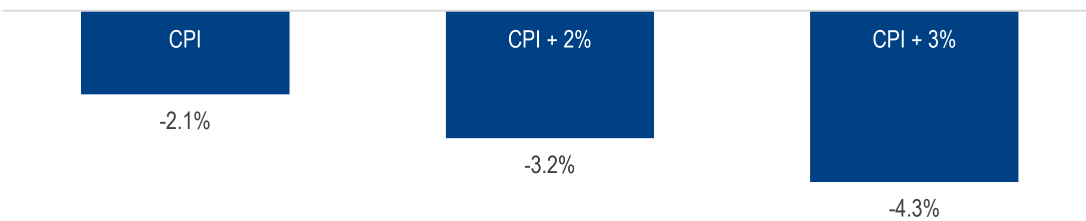
Figure 2.
Impact of FY2019 10% Rate Increase on Greeting Card Volume[12]



Similar patterns are expected across categories of mail if USPS implements rate increase above CPI. In 2017, a survey of major mailers found that volume would decline more rapidly if postal rates increased above CPI. Specifically, the study found that the average expected decline in volume for these mailers would be 2.1% at the CPI inflation rate, 3.2% at CPI plus 2%, to 4.3% at CPI plus 3% (see Appendix for more information). (Figure 3)

12 USPS. 2020. Household Diary Survey FY2019. June 2.

Figure 3.
Impact of Rate Increases on Bulk Mailer Volume[13]



Importantly, the impact of steep rate increases extends beyond declines in mail volume. The same 2017 survey of mailers found that above CPI rate increases may result in layoffs in 26% of companies. In total, "over 3,000 firms could be impacted by layoffs, with a potential of over 36,000 mailing-related positions being terminated."[14]

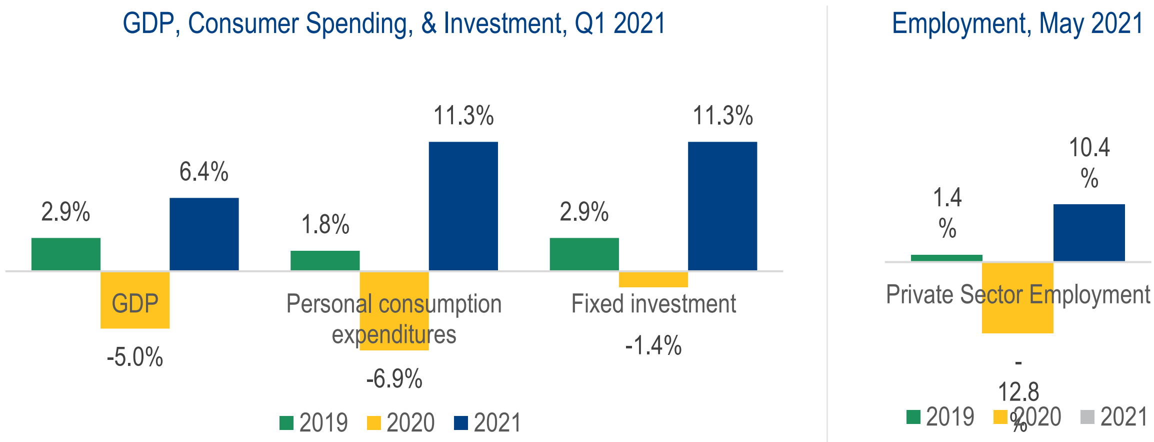
USPS FY2021 Projection & Market Dominant Mail Assumptions Must be Revised

USPS states that all of its strategic initiatives, including increasing rates above CPI, are necessary to achieve financial stability. This conclusion is based on its 10-year projections calculated in 2020. Those projections start with the base year forecast for FY2021 published in the USPS Integrated Financial Plan (IFP). When the IFP forecast was created, there was significant uncertainty around economic conditions and USPS performance. Fortunately, both have greatly exceeded expectations to date. The most recent economic and USPS data call into question the accuracy of the USPS projections, which warrant revisions to produce more realistic estimates of future USPS revenues and volumes.

According to the IFP, USPS expected GDP to grow by 0.3% and investment to decline by 1.5% in FY2021.[15] Indeed, these estimates were generated before the approval and distribution of the various COVID-19 vaccines. In that climate of uncertainty, USPS believed that: "Employment, wages and real disposable income, and consumer spending are expected to grow modestly in the wake of the pandemic."[16] But the economic recovery, so far, has exceeded those expectations. GDP, consumer spending, and fixed investment all have performed well in 2021, with annual growth of 6.4%, 11.3%, and 11.3%, respectively. Similar improvements have been seen in job growth since last year. As of May 2021, annual private sector employment growth was 10.4%. (Figure 4)

[13] InfoTrends. 2017. White Paper: Exploring Mail Volume Impact from the PRC's Proposed Rate Structure. February
[14] InfoTrends. 2017. White Paper: Exploring Mail Volume Impact from the PRC's Proposed Rate Structure. February.
[15] USPS. 2020. Fiscal Year 2021 Integrated Financial Plan.
[16] USPS. 2020. Fiscal Year 2021 Integrated Financial Plan.

Figure 4.
Economic Drivers, Annual Growth Rate from Preceding Period[17]

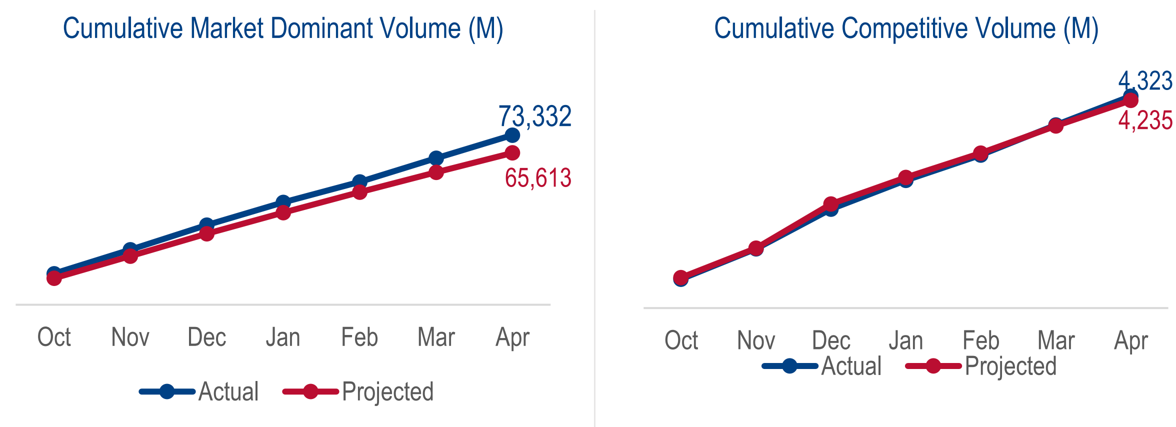


Additionally, in contrast with USPS expectations, CPI, which measures inflation and is used to calculate allowable rate increases for USPS products, is higher than expected. While the IFP expected "low" inflation for FY2021, CPI has risen about 5% through May 2021, as compared to the year prior, which represents the highest increase in inflation since 2008.[18]

Importantly, improved overall economic conditions have paired with better USPS volume and revenue performance. The most recent USPS fiscal year-to-date (October 2020 – April 2021) data show market dominant mail volume to be 7.7 billion pieces above projection (73.3 billion pieces compared to 65.6 billion projected), a difference of nearly 12%. During this time, actual competitive volume has been on pace with the projection (4.3 billion pieces compared to 4.2 billion projected). (Figure 5)

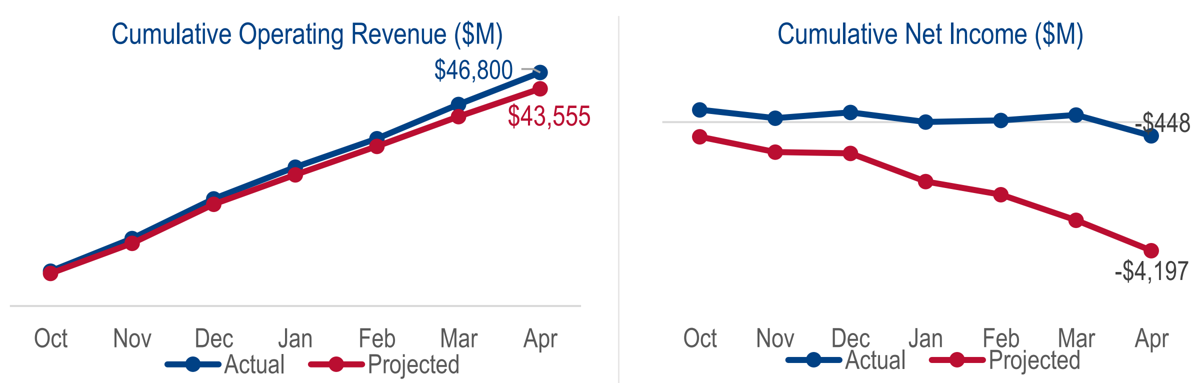
[17] BEA. National Income and Product Accounts: Table 1.1.1. Percent Change from Preceding Period in Real Gross Domestic Product. Accessed June 2021; BLS. Employment, Hours, and Earnings from the Current Employment Statistics Survey. Accessed June 2021.
[18] BLS. 2021. "Economic News Release: Consumer Price Index Summary." June 10; USPS. 2020. Fiscal Year 2021 Integrated Financial Plan, p. 2.

Figure 5.
USPS Actual & Projected Mail Volume FY 2021, Year to Date[19]



The outperformance of market dominant mail has contributed to higher operating income. As of April 2021, actual USPS fiscal year-to-date operating revenue was $3.2 billion higher than projected ($46.8 billion compared to $43.6 billion, respectively). This positive revenue has contributed to better overall net income. In its projection, USPS expected net losses starting in October and accumulating to $4.2 billion by April. Instead, USPS maintained positive net income October to March, and reported it first net loss of $448 million in April, outperforming the USPS projection by $3.7 billion (-$442 million compared to -$4.2 billion projected).[20] (Figure 6)

Figure 6.
USPS Actual & Projected Revenue & Net Income FY 2021, Year to Date[21]



[19] USPS. Monthly Unaudited Financial Statements, October 2020 to April 2021.
[20] Actual net income (loss) also includes workers compensation which USPS does not account for in its projections.
[21] USPS. Monthly Unaudited Financial Statements, October 2020 to April 2021.

Other metrics, such as total costs have operated on pace or close to projections (see Appendix). Based on the actual performance of the U.S. economy and USPS market dominant mail volumes and revenues, the USPS base year of its 10-year projections is unrealistic, thus impacting the assumptions and calculations. To obtain more realistic estimates of USPS performance over the next decade, these projections need to be revised.

Alternative Projections Show Excessive Rate Increases are Not Necessary for Financial Stability

The disparity between USPS FY2021 projections and performance for the fiscal year to date strongly suggests that reevaluation of the assumptions made about market dominant mail in the 10-year Plan. In this section we use historical USPS volume and revenue data, as well as the underlying USPS 10-year projection data to show that rate increases above CPI for market dominant mail are not necessary to achieve financial stability. Simply put, we assume USPS executes all of its strategic objectives except for raising rates and we create a set of scenarios that project USPS performance using 1.5% annual market dominant rate increases and revised volume assumptions based on historical performance.[22] Our analysis is divided into three steps: 1) estimate a more realistic base year performance of USPS market dominant volume and revenue for FY2021; 2) estimate a more realistic 10-year projection for market dominant products and services, and; 3) generate scenarios to compare with the USPS projections published in "Delivering for America." A detailed methodology is in the Appendix.

FY2021 Base Year Market Dominant Volume & Revenue

As shown in our analysis above, market dominant volume and revenue have outperformed USPS projections to date in FY 2021 and we expect this to continue for the remainder of the year. To estimate a more realistic FY2021 year-end volume and revenue, we analyzed historical quarterly performance of each category of mail (e.g., First Class Mail and Marketing Mail). We found that, although volume generally declined over time, the quarterly share of volume has remained steady. In other words, from 2015 to 2019, the first quarter of the fiscal year accounted for about 27% of volume, on average, with little variation year over year. So, we use the average historical quarterly share of volume to project volume for the second half of the FY2021 and total overall volume for each category of mail. In total, we expect USPS volume to reach 121.2 billion pieces in FY2021. (Table 3)

[22] Note: this analysis does not include or consider market dominant rate increases proposed for August 2021.

Table 3.
FY2021 Projection for Market Dominant Mail Volume

	Average Quarterly Share of Volume FY2015-19					FY2021 Volume (B)				
						Actual		Projected		
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
First-Class Mail	27.0%	25.8%	23.9%	23.3%	100%	13.8	13.1	12.2	11.9	51.0
Marketing Mail	28.1%	23.9%	23.6%	24.4%	100%	19.5	14.6	15.5	16.0	65.7
Periodicals	26.0%	24.6%	25.9%	23.5%	100%	0.9	0.9	1.0	0.9	3.7
Package Services	28.4%	24.5%	21.7%	25.3%	100%	0.1	0.1	0.1	0.1	0.5
Total Market Dominant Mail	**27.6%**	**24.7%**	**23.8%**	**23.9%**	**100%**	**34.5**	**28.9**	**28.9**	**29.0**	**121.2**

Note: Totals may not add due to rounding.

Then, we use revenue per piece to estimate the total expected revenue in FY2021. Similar to volume, we examined trends in quarterly revenue per piece by category, as well as variations in revenue per piece from quarter to quarter. Additionally, we examined market dominant services and other sources of revenue that historically contribute to about 6% of total market dominant revenue on average. We estimate that in FY2021, USPS will generate $42.3 billion from its market dominant products and services. (Table 4)

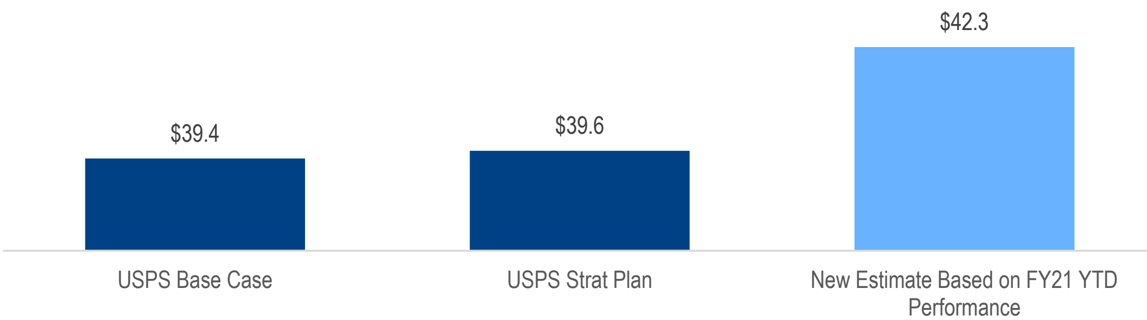
Table 4.
FY2021 Projection for Market Dominant Mail Revenue

	Projected Volume (B)	Revenue Per Piece	Projected Revenue ($B)
First-Class Mail	51.0	$0.46	$23.5
Marketing Mail	65.7	$0.22	$14.4
Periodicals	3.7	$0.24	$0.9
Package Services	0.5	$1.51	$0.8
Total Market Dominant Mail	**121.2**	$0.33	**$40.0**
Market Dominant Services & Other			$2.4
Total Market Dominant Revenue			**$42.3**

Note: Totals may not add due to rounding.

Compared to the USPS FY2021 projections in “Delivering for America,” our revised FY2021 projection of $42.3 billion is a $2.9 billion improvement in revenue from the Base Case FY 2021 scenario, and a $2.7 billion improvement over USPS estimates associated with the first year after implementation of the strategic plan. (Figure 7)

Figure 7.
New Estimated Revenue Compared to USPS "Delivering for America" Scenarios, FY 2021 ($B)[23]



10-Year Projection for Market Dominant Volume & Revenue

In addition to adjusting FY2021 volume and revenue, we examined USPS volume trends over time. In "Delivering for America," USPS expects market dominant volume to decline significantly over the next 10 years. Under the current rate regime (CPI rate increases only), USPS projects that market dominant volume will decline by 37%, a reduction of approximately 45 billion pieces, to 75 billion pieces in FY2030. Under its strategic initiative to increase rates above CPI, the expected volume losses are even greater. As seen by the fiscal year-to-date performance, market dominant volume and revenues are better than expected. As a result, the USPS volume and revenue forecasts are likely too pessimistic. Given the current USPS and economic performance, we estimate a 10-year forecast where volume declines for market dominant products reflect pre-pandemic patterns. If mail volume reflects pre-pandemic performance, above CPI rate increases are not necessary for financial stability.

For our 10-year projection, we start with our estimated FY 2021 market dominant mail volume, 121.2 billion pieces. We calculate volume changes for each category of mail before the pandemic using historical quarterly data (FY2015-19). We use the FY2015-19 average annual volume declines for each quarter (e.g., change in Q1 volume year-over-year) to project volume by category over the next 10 years. Our findings below show that at this rate of change, total market dominant volume in FY2030 is expected to be about 98.5 billion pieces instead of the 75 billion projected by USPS. (Table 5)

[23] USPS. 2021. "Delivering for America.", ndp analytics.

Table 5.
FY2021-30 Projection for Market Dominant Mail Volume

	Avg. Annual Change in Volume (2015-29)	FY 2021 Projected (B)	FY 2030 Projected (B)	USPS Base Case Projection (B)
First-Class Mail	-3.2%	51.0	38.1	
Marketing Mail	-1.4%	65.7	57.9	
Periodicals	-5.6%	3.7	2.2	
Package Services	2.5%	0.5	0.7	
Total Market Dominant Mail	**-2.3%**	**121.2**	**98.5**	**75.0**

Note: Totals may not add due to rounding.

To estimate market dominant revenue over 10 years, we use the same 1.5% annual increase in rates assumed by USPS in its Base Case scenario and our calculations for FY2021 revenue per piece. In total, under our volume scenario, we estimate USPS can generate a total of $414.2 billion over 10 years without above CPI rate increases. (Table 6)

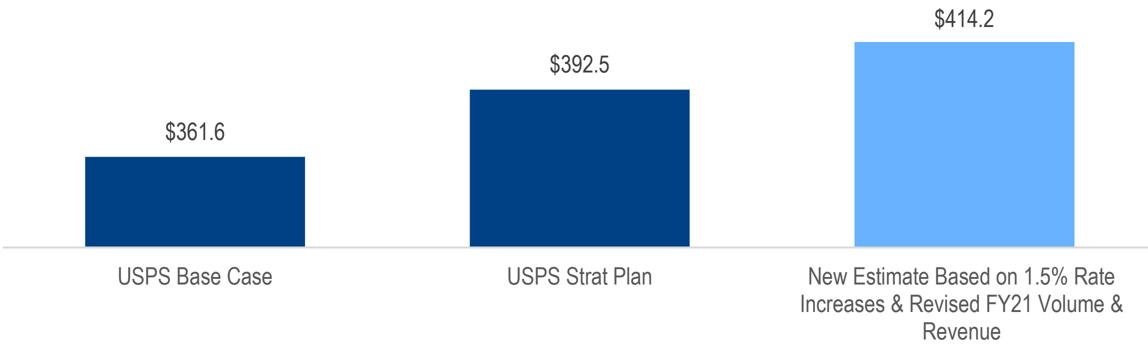
Table 6.
FY2021-30 Projection for Market Dominant Mail Revenue ($B)

	FY2021 Projected	FY2030 Projected	FY2021-30 Total Projected
First-Class Mail	$23.5	$20.0	$217.1
Marketing Mail	$14.4	$14.0	$142.0
Periodicals	$0.9	$0.6	$7.8
Package Services	$0.8	$1.1	$9.6
Total Market Dominant Mail	**$40.0**	**$36.2**	**$380.1**
Market Dominant Services & Other	$2.4	$4.7	$34.0
Total Market Dominant Revenue	**$42.3**	**$40.9**	**$414.2**

Note: Totals may not add due to rounding.

Under a more reasonable volume scenario, USPS can generate significantly more revenue than it projects in "Delivering for America." Our revised revenue estimate of $414.2 billion over 10 years is greater than both the USPS Base Case ($361.6 billion) and the USPS strategic plan forecast that raises rates above CPI and results in further volume declines ($392.5 billion). (Figure 8)

Figure 8.
New Estimated Revenue Compared to USPS "Delivering for America" Scenarios, FY 2021-30 ($B)[24]



10-Year Projection for USPS

As the final step, we input our 10-year market dominant revenue forecast into the USPS net income projection in "Delivering for America." We assume USPS will adopt all strategic initiatives, except adopting rate increases, so we start with the USPS strategic plan projection and adjust revenue and costs as follows:

- In our first scenario, we adjust market dominant revenue and controllable costs. For revenue, we replace the USPS market dominant revenue forecast with our revised projection and use the USPS projection for competitive revenue. For expenditures, we increase USPS projected controllable costs by 3% to reflect increases in personnel expenses.[25]
- In the second scenario, we only adjust market dominant revenue. We use our revised projection for USPS market dominant revenue and keep the USPS competitive revenue forecast. For expenditures, we use the USPS projection for controllable costs.
- Finally, we have the third scenario which adjusts market dominant revenue, competitive revenue, and controllable costs. We use our revised market dominant revenue projection and assume a 5% increase in competitive product revenue above the USPS strategic plan estimate. To account for the increased personnel and transportation costs, we increased controllable costs by 4%.[26] (Table 7)

[24] USPS. 2021. "Delivering for America.", ndp analytics.
[25] While USPS total expenses year-to-date are in line with its FY2021 projection, personnel costs are 2.8% higher than expected. We adjust USPS projected FY2021-30 controllable costs by 3% to account for potential underestimation of these expenses.
[26] USPS projected competitive product growth FY2021-30 is conservative compared to its experience over the past several years. From 2015 to 2019, competitive product revenue grew 10.2% on average per year. The USPS projected competitive revenue in its strategic plan (after adjusting for inflated COVID-19 volume in FY2021), grows 4.9% per year on average for FY2022-30. In this final scenario, we increase projected competitive revenue 5% to reflect historical trends. We adjust total controllable cost to account for increased personnel and transportation costs.

Table 7.

Alternative 10-Year Projection Scenarios

	Scenario 1 Adjusted Market Dominant Revenue w/ Higher Costs	**Scenario 2** Adjusted Market Dominant Revenue w/ USPS Projected Costs	**Scenario 3** Adjusted Market Dominant & Competitive Revenue w/ Higher Costs
REVENUE			
Market Dominant	Revised Estimate		
Competitive	USPS Strategic Plan	USPS Strategic Plan	USPS Strategic Plan + 5% Increase
EXPENSES			
Controllable Costs	USPS Strategic Plan + 3% Increase	USPS Strategic Plan	USPS Strategic Plan + 4% Increase
Non-Controllable Costs	USPS Strategic Plan		

For each scenario we calculate net income to compare to the USPS Baseline and Strategic Plan projections in "Delivering for America. Net income is the sum of market dominant and competitive revenue minus expenses (controllable and non-controllable costs). In the first year of the projection, FY2021, our estimates of USPS performance based on year-to-date data and historical trends, is $6.8 billion in net losses compared to $9.7 billion and $9.4 billion in losses projected by USPS in its Base Case and Strategic Plan scenarios, respectively. (Table 8)

Table 8.

New Estimated FY2021 Net Income Compared to USPS "Delivering for America" Forecasts ($B)[27]

	USPS Base Case	**USPS Strategic Plan**	**New Scenarios (All Same Base Year)**
Revenue	**$70.9**	**$71.1**	**$73.8**
Market Dominant	$39.4	$39.6	$42.3
Competitive	$31.5	$31.5	$31.5
Expenses	**$80.5**	**$80.6**	**$80.6**
Controllable Costs	$76.5	$76.5	$76.5
Non-Controllable Costs	$4.0	$4.1	$4.1
Net Income	**$(9.7)**	**$(9.4)**	**$(6.8)**

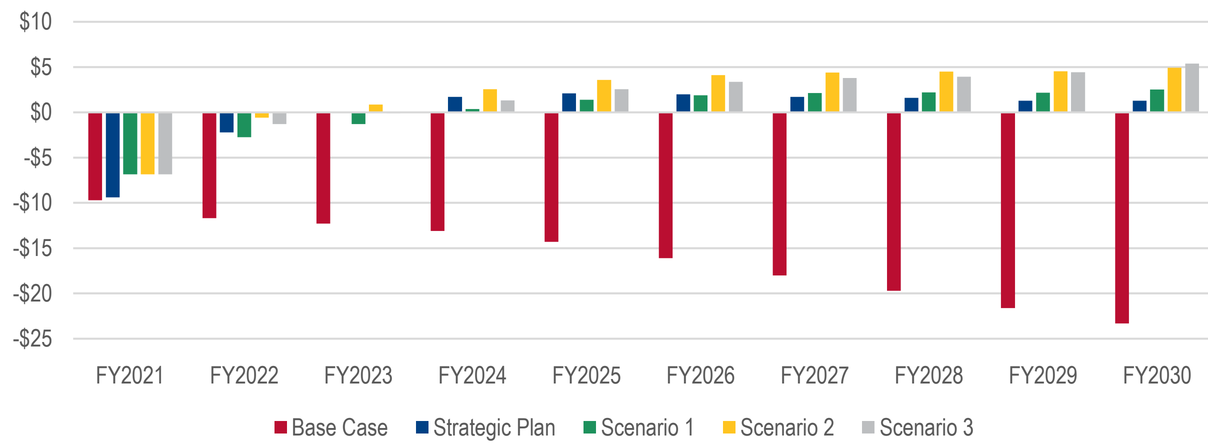
Note: Totals may not add due to rounding. In the base year, FY2021 our estimates of competitive revenue and expenses are the same as USPS. Scenario variations in revenue and controllable expenses begin in FY2022.

[27] USPS. 2021. "Delivering for America.", ndp analytics.

Over time, as USPS retains volume and implements all strategic initiatives except raising rates above CPI, it generates positive net income above its strategic plan projection starting in FY2025 and FY2026, depending on the scenario (see Appendix for underlying data). Ultimately, USPS can reach up to $5.4 billion in revenue per year by FY2030 with increases in both market dominant and competitive product revenue. (Figure 9)

Figure 9.

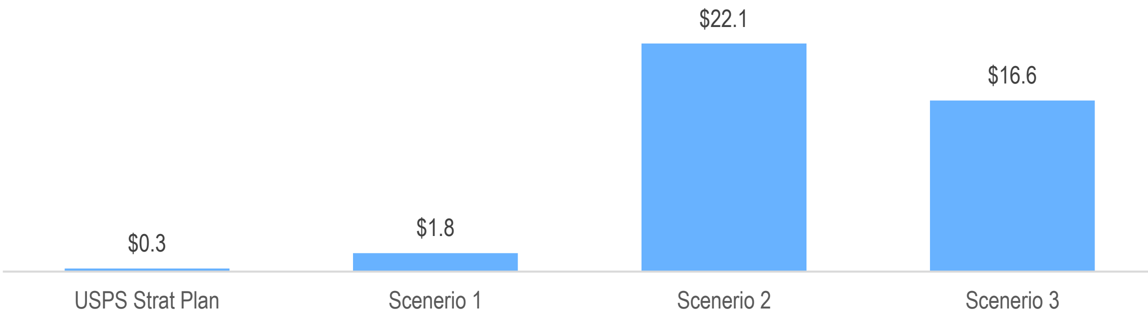
New Scenarios Compared to USPS "Delivering for America" Net Income Forecasts ($B)[28]



Over time, USPS can generate a positive net income without increasing costs to its customers. Over 10 years, instead of generating $0.3 billion with above CPI rate increases, USPS can generate a surplus of $1.8 billion in the lowest alternative scenario (adjusted market dominant revenue and higher controllable costs). If USPS costs are in line with its projection, USPS could generate $22.1 billion over 10 years. Finally, if USPS increases market dominant and competitive revenue – but also increases controllable costs, it will generate $16.6 billion in net income over 10 years. (Figure 10)

[28] USPS. 2021. "Delivering for America.", ndp analytics.

Figure 10.
New Estimated Total Net Income Compared to USPS "Delivering for America" Strategic Plan Forecast, FY 2021-30 ($B)



Closing Remarks

The USPS strategic plan, "Delivering for America," outlines a number of key initiatives aimed at achieving financial stability. Most of these initiatives align with USPS mission and vision, except its call to raise rates above CPI. Sharp increases in rates deter use of mail and further induce volume declines, and do not better serve USPS customers or support USPS revenue in the long term. Ultimately, USPS will be more financially stable if it can protect market dominant mail volume from further declines. Our analysis shows that CPI level rate increases are sufficient in generating revenue if USPS implements its other strategic initiatives. This exception to its original plan – excluding the strategic initiative for above CPI rate increases – better aligns the USPS strategy to reach financial stability with its mission and vision to deliver high levels of customer service while minimizing prices.

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APPENDICES

1. USPS Mission
2. Methodology Used for Revised FY2021 & 10-Year Projections
3. Data Tables: USPS Fiscal-Year-to-Date Performance (October-April)
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6. Data Tables: USPS 10 Year Projections & Alternative Scenarios – Underlying Data
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APPENDIX 1.
USPS Mission & Strategic Objectives

USPS mission as written on USPS "About Us" Webpage (Accessed June 2021).

Our mission

- To serve the American people and, through the universal service obligation, bind our nation together by maintaining and operating our unique, vital and resilient infrastructure.
- To provide trusted, safe and secure communications and services between our Government and the American people, businesses and their customers, and the American people with each other.
- To serve all areas of our nation, making full use of evolving technologies.

Carrying out our mission

To meet this Mission we will:

- Remain an integral part of the United States Government, providing all Americans with universal and open access to our unrivalled delivery and storefront network.
- Maintain and enhance our reputation and role as a trusted face of the federal government in every community and provide all levels of government with access to our network and services.
- Provide frequent, reliable, safe and secure delivery of mail, packages and other communications to all Americans.
- Use technology, innovation and where appropriate private sector partnerships, to optimize and adapt our network, operations and business model to meet the changing needs of our customers and delivery recipients, while maintaining our core mission.
- Operate in a modern, efficient and effective manner that allows us to minimize what we charge for our services, consistent with meeting, in a fair way, our obligations to our current and retired employees and other stakeholders.
- Remain an employer of choice, able to attract, retain and develop high quality employees that possess the skills necessary to excel in a rapidly changing business environment.

APPENDIX 2.
Methodology Used for Revised FY2021 & 10-Year Projections

This section provides detailed methodology of used for our 10-year (FY2021-30) estimates. Our estimate is comprised of two parts: first we estimate volume and revenue for the base year (FY2021), then we project volume and revenue until FY2030).

Estimating FY2021 Volume and Revenue

First, we estimated FY2021 volume for market dominant mail and services.

1. We compiled quarterly data for market dominant products and services from Q1 FY2015 to Q2 FY2021 using USPS Quarterly Statistics Reports.
2. For each quarter during FY2015 to FY2020, we calculated the quarterly volume as a share of total annual volume for each category of market dominant products and services (e.g., First-Class Mail, Marketing Mail).
3. For each quarter, we calculated the average share of volume for FY2015-FY2019. We excluded FY2020 because of the COVID-19 pandemic.
4. We used actual volume data for Q1 and Q2 FY2021 and the average quarterly share of volume to estimate Q3, Q4, and total FY2021 volume for each category of market dominant mail.
5. We summed total volume by category to estimate total FY2021 volume.

Then, we estimated FY2021 revenue per piece for market dominant mail and services.

1. We compiled quarterly volume and revenue data for market dominant products and services from Q1 FY2015 to Q2 FY2021 using USPS Quarterly Statistics Reports.
2. For each quarter during FY2015-20, we calculated revenue per piece (revenue/volume) for each category of market dominant products and services (e.g., First-Class Mail, Marketing Mail).
3. For each quarter, we calculated changes revenue per piece compared to the previous quarter of that year to examine variations in weight.
4. For each quarter, we calculated the average change in revenue per piece for FY2015-19. We excluded FY2020 because of the COVID-19 pandemic.
5. We used actual revenue per piece for Q1 and Q2 FY2021 and the average quarterly change in revenue per piece to estimate Q3 and Q4 FY2021 revenue per piece for each category of market dominant products and services.

Finally, we estimated FY2021 revenue for market dominant mail and services.

1. We calculate FY2021 revenue by multiplying volume by revenue per piece for each category of market dominant mail and services.
2. In addition to revenue from market dominant products and services, USPS reports some additional revenue under the category of "other." This type of revenue does not have volume data. So, we calculated the ratio of "other" revenue to total market dominant product and services revenue for using quarterly revenue from USPS Quarterly Statistics Reports FY2015 to FY2021.
3. We calculated the average quarterly ratio of "other" revenue to market dominant product and services revenue during FY2015-19 (again, we exclude FY2020 because of COVID-19) to estimate "other" revenue for FY 2021.

4. We summed total revenue for each category of market dominant mail and services and "other" revenue to estimate FY2021 revenue.

Projecting Volume and Revenue Through FY2030

First, we estimated volume for market dominant mail and services through FY2030.

1. We compiled quarterly data for market dominant products and services from Q1 FY2015 to Q2 FY2021 using USPS Quarterly Statistics Reports.
2. For each quarter during FY2015-20, we calculated the year-over-year change in volume for each category of market dominant products and services (e.g., First-Class Mail, Marketing Mail).
3. We calculated the average year-over-year volume change for each quarter and each category of mail for FY2015-19 (we exclude FY2020 because of the COVID-19 pandemic).
4. We use FY2021 quarterly volume data (Q1-2 actual, Q3-4 estimated), and apply the average volume decline for each quarter and category of market dominant mail to estimate FY2022 volume. We assume a linear change in volume and, therefore, we apply the same average annual change to all years FY2022-30.
5. We summed total volume by quarter and category to estimate annual and total volume FY2022-30.
6. Total 10-year volume is the sum of FY2021-30 volume.

Then, we estimated revenue per piece for market dominant mail and services through FY2030.

1. We use FY2021 revenue per piece data (Q1-2 actual, Q3-4 estimated), and apply 1.5% rate increase each year for category of market dominant mail and services to estimate FY2022-30 revenue per piece.

Finally, we estimated revenue for all market dominant mail and services through FY2030.

1. We estimate revenue through FY2030 by multiplying our FY2022-30 projections for volume and revenue per piece for each category of market dominant mail and services.
2. Then, to estimate FY2022-30 "other" revenue, we use the same average ratio of "other" revenue to total market dominant product and services revenue that we used to estimate FY2021 "other" revenue.
3. We summed total revenue for each category of market dominant mail and services and "other" revenue to estimate FY2022-30 revenue.
4. Total 10-year revenue is the sum of FY2021-30 revenue.

APPENDIX 3.
USPS Fiscal-Year-to-Date FY2021 Actual & Projected Performance[29]

Actual ($Millions)	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Revenue							
Operating Revenue	6,988	13,553	21,495	27,831	33,559	40,385	46,782
Other Revenue	2	1	3	3	3	18	18
Total Revenue	6,990	13,554	21,498	27,834	33,562	40,403	46,800
Operating Expenses							
Personnel Compensation and Benefits	5,058	10,321	15,992	20,998	25,111	30,042	35,498
Transportation	694	1,457	2,601	3,409	4,128	4,945	5,748
Supplies and Services	260	513	810	1,043	1,293	1,553	1,781
Other Expenses	561	1,108	1,744	2,332	2,925	3,562	4,145
Total Operating Expenses	6,573	13,399	21,147	27,782	33,457	40,102	47,172
Net Operating Loss	417	155	351	52	105	301	(372)
Interest Income	3	5	8	11	13	15	16
Interest Expense	15	28	41	55	66	80	92
Net Loss	405	132	318	8	52	236	(448)
Other Operating Statistics							
Mail Volume (Millions)							
Market Dominant Products Volume	13,454	23,791	34,434	44,239	53,024	63,283	73,332
Competitive Products Volume	590	1,208	2,020	2,607	3,121	3,735	4,323
International Products Volume	37	73	131	166	200	230	262
Total Mail Volume	14,081	25,072	36,585	47,012	56,345	67,248	77,917
Total Workhours (Millions)	105	201	316	416	506	610	708
Projection ($Millions)	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Revenue							
Operating Revenue	6,547	12,599	20,427	26,287	32,011	37,996	43,555
Other Revenue	-	1	1	1	2	2	2
Total Revenue	6,547	12,600	20,428	26,288	32,013	37,998	43,557
Operating Expenses							
Personnel Compensation and Benefits	5,475	10,421	16,351	21,542	26,197	31,480	36,517
Transportation	736	1,497	2,551	3,315	3,990	4,715	5,381
Supplies and Services	214	462	720	953	1,170	1,396	1,642
Other Expenses	589	1,172	1,788	2,376	2,974	3,551	4,140
Total Operating Expenses	7,014	13,552	21,410	28,186	34,331	41,142	47,680
Net Operating Loss	(467)	(952)	(982)	(1,898)	(2,318)	(3,144)	(4,123)
Interest Income	4	7	9	12	15	17	20
Interest Expense	15	28	42	56	68	82	94
Net Loss	(478)	(973)	(1,015)	(1,942)	(2,371)	(3,209)	(4,197)
Other Operating Statistics							
Mail Volume (Millions)							
Market Dominant Products Volume	11,435	21,066	30,623	39,861	48,636	57,232	65,613
Competitive Products Volume	621	1,222	2,121	2,665	3,158	3,718	4,235
International Products Volume	45	91	152	186	232	276	297
Total Mail Volume	12,101	22,379	32,896	42,712	52,026	61,226	70,145
Total Workhours (Millions)	104	201	317	409	496	595	689

[29] USPS Monthly Unaudited Financial Statements, October -April.

APPENDIX 4.1.
FY2015-21 Historical & Projected Market Dominant Volume by Category (Thousands)[30]

Fiscal Year	2015	2016	2017	2018	2019	2020	2021
Q1 OCT-DEC							
First-Class Mail	16,985,319	16,712,339	16,177,288	15,512,422	15,102,743	14,515,399	13,793,834
Marketing Mail	22,784,652	22,087,194	22,373,242	21,055,165	22,054,872	20,313,444	19,526,165
Periodicals	1,507,412	1,465,530	1,369,447	1,314,364	1,198,058	1,109,478	943,576
Package Svs	157,114	174,036	177,928	180,154	173,921	153,958	141,619
Total Mail	**41,587,994**	**40,630,430**	**40,201,998**	**38,153,001**	**38,619,945**	**36,186,340**	**34,493,436**
Total Services	**1,091,464**	**1,329,433**	**1,538,342**	**1,640,698**	**1,743,625**	**1,690,825**	**105,855**
Q2 JAN-MAR							
First-Class Mail	16,010,521	16,130,507	15,461,268	14,987,987	14,409,112	14,255,575	13,117,552
Marketing Mail	19,119,073	19,474,398	18,792,344	18,610,644	17,652,326	17,049,120	14,624,697
Periodicals	1,446,780	1,365,710	1,315,206	1,184,867	1,163,044	1,020,818	935,736
Package Svs	140,922	137,396	151,960	156,469	158,623	141,807	137,151
Total Mail	**36,791,911**	**37,182,043**	**35,793,936**	**35,010,789**	**33,453,530**	**32,540,458**	**28,890,129**
Total Services	**995,787**	**1,182,172**	**1,321,707**	**1,403,048**	**1,401,897**	**116,927**	**106,181**
Q3 APR-JUN							
First-Class Mail	15,318,489	14,849,895	14,152,141	13,643,782	13,265,361	12,041,514	12,165,709*
Marketing Mail	18,804,982	19,127,349	18,458,252	18,553,916	17,681,521	11,247,373	15,504,504*
Periodicals	1,484,271	1,427,255	1,363,470	1,355,160	1,182,523	980,473	961,102*
Package Svs	120,780	125,256	134,131	145,035	135,818	140,962	114,473*
Total Mail	**35,825,522**	**35,645,948**	**34,216,475**	**33,794,147**	**32,350,743**	**24,485,517**	**28,852,624***
Total Services	**986,314**	**1,157,198**	**1,310,431**	**1,396,808**	**1,379,839**	**98,391**	**97,039***
Q4 JUL-SEP							
First-Class Mail	14,990,823	14,557,420	13,942,762	13,323,952	12,855,264	12,127,030	11,897,416*
Marketing Mail	19,381,566	20,240,993	18,746,005	19,083,632	18,301,327	15,570,187	16,025,652*
Periodicals	1,399,712	1,327,687	1,252,622	1,138,937	1,090,993	895,310	874,710*
Package Svs	145,760	154,485	155,870	158,767	153,333	134,078	133,256*
Total Mail	**35,992,512**	**36,365,380**	**34,174,655**	**33,779,854**	**32,473,309**	**28,830,639**	**29,008,248***
Total Services	**1,035,788**	**1,196,932**	**1,313,495**	**1,397,417**	**1,397,576**	**106,385**	**98,987***
Full Year							
First-Class Mail	63,305,152	62,250,161	59,733,459	57,468,143	55,632,480	52,939,518	50,974,511*
Marketing Mail	80,090,273	80,929,934	78,369,843	77,303,357	75,690,046	64,180,124	65,681,018*
Periodicals	5,838,175	5,586,182	5,300,745	4,993,328	4,634,618	4,006,079	3,715,124*
Package Svs	564,576	591,173	619,889	640,425	621,695	570,805	526,499*
Total Mail	**150,197,939**	**149,823,801**	**144,387,064**	**140,737,791**	**136,897,527**	**122,042,954**	**121,244,437***
Total Svs	**4,109,353**	**4,865,735**	**5,483,975**	**5,837,971**	**5,922,937**	**2,012,528**	**408,062***

*Projected

[30] USPS Quarterly Statistics Reports, FY2015-21; projections by ndp analytics.

APPENDIX 4.2.
FY2015-20 Historical Quarterly Shares of Market Dominant Volume by Category[31]

Fiscal Year	2015	2016	2017	2018	2019	2020	Avg. 2015-19
Q1 OCT-DEC							
First-Class Mail	26.8%	26.8%	27.1%	27.0%	27.1%	27.4%	27.0%
Marketing Mail	28.4%	27.3%	28.5%	27.2%	29.1%	31.7%	28.1%
Periodicals	25.8%	26.2%	25.8%	26.3%	25.9%	27.7%	26.0%
Package Svs	27.8%	29.4%	28.7%	28.1%	28.0%	27.0%	28.4%
Total Mail	27.7%	27.1%	27.8%	27.1%	28.2%	29.7%	27.6%
Total Services	26.6%	27.3%	28.1%	28.1%	29.4%	84.0%	27.9%
Q2 JAN-MAR							
First-Class Mail	25.3%	25.9%	25.9%	26.1%	25.9%	26.9%	25.8%
Marketing Mail	23.9%	24.1%	24.0%	24.1%	23.3%	26.6%	23.9%
Periodicals	24.8%	24.4%	24.8%	23.7%	25.1%	25.5%	24.6%
Package Svs	25.0%	23.2%	24.5%	24.4%	25.5%	24.8%	24.5%
Total Mail	24.5%	24.8%	24.8%	24.9%	24.4%	26.7%	24.7%
Total Services	24.2%	24.3%	24.1%	24.0%	23.7%	5.8%	24.1%
Q3 APR-JUN							
First-Class Mail	24.2%	23.9%	23.7%	23.7%	23.8%	22.7%	23.9%
Marketing Mail	23.5%	23.6%	23.6%	24.0%	23.4%	17.5%	23.6%
Periodicals	25.4%	25.5%	25.7%	27.1%	25.5%	24.5%	25.9%
Package Svs	21.4%	21.2%	21.6%	22.6%	21.8%	24.7%	21.7%
Total Mail	23.9%	23.8%	23.7%	24.0%	23.6%	20.1%	23.8%
Total Services	24.0%	23.8%	23.9%	23.9%	23.3%	4.9%	23.8%
Q4 JUL-SEP							
First-Class Mail	23.7%	23.4%	23.3%	23.2%	23.1%	22.9%	23.3%
Marketing Mail	24.2%	25.0%	23.9%	24.7%	24.2%	24.3%	24.4%
Periodicals	24.0%	23.8%	23.6%	22.8%	23.5%	22.3%	23.5%
Package Svs	25.8%	26.1%	25.1%	24.8%	24.7%	23.5%	25.3%
Total Mail	24.0%	24.3%	23.7%	24.0%	23.7%	23.6%	23.9%
Total Services	25.2%	24.6%	24.0%	23.9%	23.6%	5.3%	24.3%
Full Year							
First-Class Mail	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Marketing Mail	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Periodicals	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Package Svs	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Mail	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Svs	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

[31] USPS Quarterly Statistics Reports, FY2015-20.

APPENDIX 5.
FY2015-21 Historical & Projected Market Dominant Revenue Per Piece by Category ($)[32]

Fiscal Year	2015	2016	2017	2018	2019	2020	2021
Q1 OCT-DEC							
First-Class Mail	0.469	0.476	0.458	0.452	0.459	0.467	0.461
Marketing Mail	0.219	0.223	0.211	0.212	0.212	0.218	0.214
Periodicals	0.274	0.279	0.264	0.256	0.259	0.258	0.259
Package Svs	1.379	1.305	1.216	1.241	1.260	1.339	1.570
Total Mail	0.327	0.333	0.316	0.315	0.314	0.323	0.319
Total Services	0.435	0.346	0.296	0.252	0.255	0.263	3.891
Q2 JAN-MAR							
First-Class Mail	0.464	0.472	0.452	0.451	0.454	0.450	0.460
Marketing Mail	0.221	0.223	0.214	0.215	0.218	0.220	0.222
Periodicals	0.269	0.274	0.259	0.257	0.256	0.260	0.251
Package Svs	1.455	1.439	1.333	1.326	1.332	1.414	1.584
Total Mail	0.333	0.337	0.322	0.322	0.326	0.327	0.337
Total Services	0.491	0.393	0.335	0.313	0.310	3.720	3.849
Q3 APR-JUN							
First-Class Mail	0.467	0.463	0.455	0.455	0.460	0.458	0.462*
Marketing Mail	0.221	0.213	0.213	0.215	0.219	0.217	0.220*
Periodicals	0.269	0.259	0.255	0.251	0.255	0.250	0.246*
Package Svs	1.448	1.358	1.325	1.306	1.362	1.522	1.565*
Total Mail	0.332	0.323	0.318	0.318	0.324	0.344	0.332*
Total Services	0.507	0.392	0.349	0.319	0.320	3.848	3.947*
Q4 JUL-SEP							
First-Class Mail	0.470	0.455	0.451	0.453	0.458	0.453	0.459*
Marketing Mail	0.224	0.213	0.214	0.215	0.219	0.215	0.221*
Periodicals	0.277	0.267	0.260	0.260	0.260	0.253	0.253*
Package Svs	1.438	1.324	1.312	1.306	1.344	1.574	1.548*
Total Mail	0.333	0.316	0.317	0.315	0.320	0.322	0.329*
Total Services	0.445	0.376	0.333	0.305	0.323	3.903	3.753*
Full Year							
First-Class Mail	0.468	0.466	0.454	0.453	0.458	0.457	0.461*
Marketing Mail	0.221	0.218	0.213	0.214	0.217	0.217	0.219*
Periodicals	0.272	0.270	0.259	0.256	0.258	0.255	0.252*
Package Svs	1.430	1.356	1.296	1.295	1.324	1.462	1.567*
Total Mail	0.331	0.327	0.318	0.317	0.321	0.329	0.329*
Total Svs	0.470	0.377	0.328	0.297	0.302	2.933	3.860*

*Projected

[32] USPS Quarterly Statistics Reports, FY2015-21; projections by ndp analytics.

APPENDIX 6.
FY2021-30 Projections Underlying Data ($Billions)

Fiscal Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total
USPS Base Case											
Revenue	**$70.9**	**$68.8**	**$69.7**	**$70.4**	**$70.5**	**$70.4**	**$70.7**	**$71.2**	**$71.5**	**$71.6**	**$705.7**
Market Dominant	$39.4	$38.9	$38.6	$37.9	$36.9	$35.7	$34.9	$34.0	$33.1	$32.2	$361.6
Competitive	$31.5	$29.9	$31.1	$32.5	$33.6	$34.7	$35.9	$37.3	$38.4	$39.4	$344.3
Expenses	**$80.5**	**$80.5**	**$82.1**	**$83.5**	**$84.8**	**$86.5**	**$88.7**	**$90.9**	**$93.1**	**$94.9**	**$865.5**
Controllable	$76.5	$76.3	$77.8	$79.2	$80.4	$82.0	$84.0	$86.1	$88.2	$89.9	$820.4
Non-Controllable	$4.0	$4.2	$4.3	$4.3	$4.4	$4.5	$4.7	$4.8	$4.9	$5.0	$45.1
Net Income	**$(9.6)**	**$(11.7)**	**$(12.4)**	**$(13.1)**	**$(14.3)**	**$(16.1)**	**$(18.0)**	**$(19.7)**	**$(21.6)**	**$(23.3)**	**$(159.8)**
USPS Strategic Plan											
Total Revenue	**$71.1**	**$71.3**	**$73.7**	**$75.5**	**$76.4**	**$77.2**	**$78.3**	**$79.9**	**$81.2**	**$82.5**	**$767.1**
Market Dominant	$39.6	$40.5	$40.9	$40.8	$40.0	$39.2	$38.5	$38.1	$37.7	$37.2	$392.5
Competitive	$31.5	$30.9	$32.8	$34.8	$36.4	$38.0	$39.8	$41.8	$43.5	$45.2	$374.7
Total Expenses	**$80.6**	**$73.5**	**$73.7**	**$73.8**	**$74.2**	**$75.1**	**$76.5**	**$78.3**	**$79.9**	**$81.2**	**$766.8**
Controllable	$76.5	$72.2	$72.4	$72.6	$73.0	$73.9	$75.3	$77.1	$78.7	$80.0	$751.7
Non-Controllable	$4.1	$1.3	$1.3	$1.2	$1.2	$1.2	$1.2	$1.2	$1.2	$1.2	$15.1
Net Income	**$(9.5)**	**$(2.2)**	**$-**	**$1.7**	**$2.2**	**$2.1**	**$1.8**	**$1.6**	**$1.3**	**$1.3**	**$0.3**
Scenario 1 - Adjusted Market Dominant & Increased Costs											
Total Revenue	**$73.8**	**$72.9**	**$74.6**	**$76.4**	**$77.8**	**$79.2**	**$80.9**	**$82.8**	**$84.4**	**$86.1**	**$788.9**
Market Dominant	$42.3	$42.0	$41.8	$41.6	$41.4	$41.2	$41.1	$41.0	$40.9	$40.9	$414.2
Competitive	$31.5	$30.9	$32.8	$34.8	$36.4	$38.0	$39.8	$41.8	$43.5	$45.2	$374.7
Total Expenses	**$80.6**	**$75.7**	**$75.9**	**$76.0**	**$76.4**	**$77.3**	**$78.8**	**$80.6**	**$82.3**	**$83.6**	**$787.1**
Controllable	$76.5	$74.4	$74.6	$74.8	$75.2	$76.1	$77.6	$79.4	$81.1	$82.4	$772.0
Non-Controllable	$4.1	$1.3	$1.3	$1.2	$1.2	$1.2	$1.2	$1.2	$1.2	$1.2	$15.1
Net Income	**$(6.8)**	**$(2.8)**	**$(1.3)**	**$0.4**	**$1.4**	**$1.9**	**$2.1**	**$2.2**	**$2.2**	**$2.5**	**$1.8**
Scenario 2 - Adjusted Market Dominant & USPS Projected Costs											
Total Revenue	**$73.8**	**$72.9**	**$74.6**	**$76.4**	**$77.8**	**$79.2**	**$80.9**	**$82.8**	**$84.4**	**$86.1**	**$788.9**
Market Dominant	$42.3	$42.0	$41.8	$41.6	$41.4	$41.2	$41.1	$41.0	$40.9	$40.9	$414.2
Competitive	$31.5	$30.9	$32.8	$34.8	$36.4	$38.0	$39.8	$41.8	$43.5	$45.2	$374.7
Total Expenses	**$80.6**	**$73.5**	**$73.7**	**$73.8**	**$74.2**	**$75.1**	**$76.5**	**$78.3**	**$79.9**	**$81.2**	**$766.8**
Controllable	$76.5	$72.2	$72.4	$72.6	$73.0	$73.9	$75.3	$77.1	$78.7	$80.0	$751.7
Non-Controllable	$4.1	$1.3	$1.3	$1.2	$1.2	$1.2	$1.2	$1.2	$1.2	$1.2	$15.1
Net Income	**$(6.8)**	**$(0.6)**	**$0.9**	**$2.6**	**$3.6**	**$4.1**	**$4.4**	**$4.5**	**$4.5**	**$4.9**	**$22.1**
Scenario 3 - Adjusted Market Dominant & Competitive											
Total Revenue	**$73.8**	**$75.1**	**$76.5**	**$78.0**	**$79.7**	**$81.4**	**$83.3**	**$85.3**	**$87.5**	**$89.8**	**$810.4**
Market Dominant	$42.3	$42.0	$41.8	$41.6	$41.4	$41.2	$41.1	$41.0	$40.9	$40.9	$414.2
Competitive	$31.5	$33.1	$34.7	$36.5	$38.3	$40.2	$42.2	$44.3	$46.5	$48.9	$396.2
Total Expenses	**$80.6**	**$76.4**	**$76.6**	**$76.7**	**$77.1**	**$78.1**	**$79.5**	**$81.4**	**$83.0**	**$84.4**	**$793.8**
Controllable	$76.5	$75.1	$75.3	$75.5	$75.9	$76.9	$78.3	$80.2	$81.8	$83.2	$778.7
Non-Controllable	$4.1	$1.3	$1.3	$1.2	$1.2	$1.2	$1.2	$1.2	$1.2	$1.2	$15.1
Net Income	**$(6.8)**	**$(1.3)**	**$(0.1)**	**$1.3**	**$2.5**	**$3.4**	**$3.8**	**$3.9**	**$4.4**	**$5.4**	**$16.6**

APPENDIX 7.
Stamped Letter Volume Before and After Rate Changes & Factors Influencing Greeting Card Volume

This appendix is divided into two sections. Section 1 analyzes volume trends for stamped letters before and after rate increases to compare performance after the latest 10% increase to prior years. Section 2 analyzes greeting card volume and the factors that positively and negatively impact growth. Note for the purposes of this memo "greeting card volume" refers to the volume of greeting cards mailed via USPS. Key findings of these two sets of analyses are below.

Stamped Letter Volume Before and After Rate Changes Key Findings:

- Over the last five years (USPS FY 2015-19) stamped letter volume has been declining. While the decline is largely attributed to changes in technology and demographics, it has also been impacted by stamp prices. The relative effects of these factors differ between greeting cards and stamped letters as a whole.
- During FY 2015-19, USPS increased the price of a first ounce stamp three times during the second quarter of the fiscal year. We compared stamped letter volume before and after rate increases during this period. We analyzed volume patterns during Q2 (when the rate was implemented), during the full fiscal year, and in peak letter season (Q1) after new rates were implemented. In all cases, the greatest volume declines occurred after the 10% rate increase in FY 2019.
- Stamped letter volume peaks in Q1 of USPS fiscal year from October to December. The volume during this period accounts for about one third of total annual volume. Volume decline from Q1 FY 2019 to Q1 FY 2020, the first peak season with a 55-cent stamp, was 11% compared to less than 2% the year before.

Factors Influencing Greeting Card Volume Key Findings:

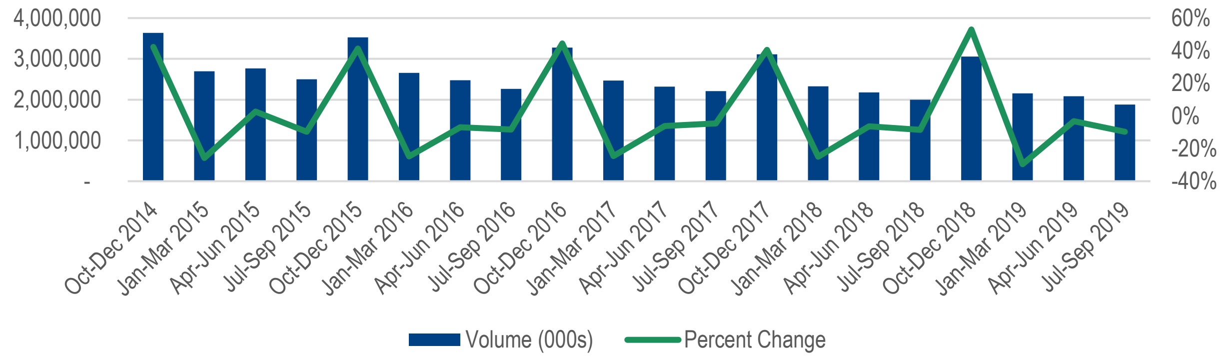
- Unlike the stamped letter category overall, greeting cards experienced growth from FY 2015-18. However, in FY 2019, greeting card volume suddenly declined more than 15%.
- This decline in volume in FY 2019 cannot be explained by common drivers of greeting card industry growth such as personal income, consumer spending, and holiday spending. However, these factors, in combination with USPS marketing efforts, are likely to have contributed to positive greeting card growth from FY 2015-18, and potentially have curbed further decline in FY 2019.
- The timing of the decline in greeting card volume parallels the 10% increase in first-ounce stamp prices. It is the only factor that appears to align with the change in greeting card volume. While other factors, such as electronic diversion, contribute to steady decreases in physical greeting card volume, they cannot explain the sudden decline in FY 2019.

Section 1. USPS Stamped Letter Volume Before and After Rate Changes

USPS stamped letter volume is cyclical. It typically peaks during USPS Q1 (October through December) and declines throughout the period between January and September.[33] On average, volume increased 44.3% from the July-September period (USPS Q4) to October-December (USPS Q1) during FY 2015-19. However, total stamped letter volume has been declining over time. During peak season, October through December, stamped letter volume decreased from over 3.6 million in FY 2015 (CY Oct-Dec 2014) to 3.1 million in FY 2019 (CY Oct-Dec 2018). (Figure A7.1)

Figure A7.1.

Stamped Letter Volume and Percent Change from Previous Quarter, FY 2015-19[34]



Overall, this decline in stamped letter volume is largely attributed to electronic diversion and changing household demographics. Recent years have shown a steady decline in mailed bill payments.[35] However, price is also a factor. In January 2019, the price of a first-ounce stamp increased by 10%, the largest price increase implemented by USPS in recent years. This section includes the following sets of analyses to examine the impact of this price increase on stamped letter volume:

1. Changes in Q2 stamped letter volume before and after rate increases.
2. Changes in total fiscal year stamped letter volume before and after rate increases.
3. Changes in Q1 stamped letter volume following a rate increase the fiscal year prior.

Changes in Q2 Stamped Letter Volume Before and After Rate Increases

To examine the impact of the FY 2019 first-ounce stamp rate increase, we compared patterns in USPS stamped letter volume before and after comparable rate changes over the past five years. During FY 2015-19, USPS raised the price of a first-ounce stamp three times in the second quarter of the USPS fiscal year

[33] The USPS fiscal year runs from October 1 – September 30.
[34] USPS Billing Determinants for First Class Mail FY2015 to FY2019; ndp analytics.
[35] USPS Household Diary Study Reports, Table 4.1.

(January to March).[36] On January 22, 2017, stamp rates were raised 4.3% from $0.47 to $0.49. Then, on January 21, 2018 rates were raised 2.0% to $0.50. Finally, on January 27, 2019 rates were raised 10.0% to $0.55. (Table A7.1)

Table A7.1.
Q2 Rate Increases for First-Ounce Stamps, FY 2017-19[37]

	Day of Rate Change	Rate Before	Rate After	Rate Increase
FY 2017	January 22	$0.47	$0.49	4.3%
FY 2018	January 21	$0.49	$0.50	2.0%
FY 2019	January 27	$0.50	$0.55	10.0%

We calculated the percentage change in volume before and after rate changes in the second quarter of each fiscal year.[38] Changes in volume were similar in FY 2017 and FY 2018 but significantly smaller in FY 2019 after the 10% rate increase. In other words, stamped letter volume after the rate change in 2019 underperformed compared to prior years. (Table A7.2)

- Total volume was 279.0% higher in Q2 FY 2017 after the rate increase compared to Q2 FY 2017 before the rate increase (1.953 billion pieces compared to 515.3 million pieces).
- Total volume was 229.5% higher in Q2 FY 2018 after the rate increase compared to Q2 FY 2018 before the rate increase (1.787 billion pieces compared to 542.4 million pieces).
- Total volume was 98.1% higher in Q2 FY 2019 after the rate increase compared to Q2 FY 2019 before the rate increase (1.429 billion pieces compared to 721.7 million pieces).

Table A7.2.
Change in Stamped Letter Volume Before and After Rate Increases During Q2 FY 2017-19[39]

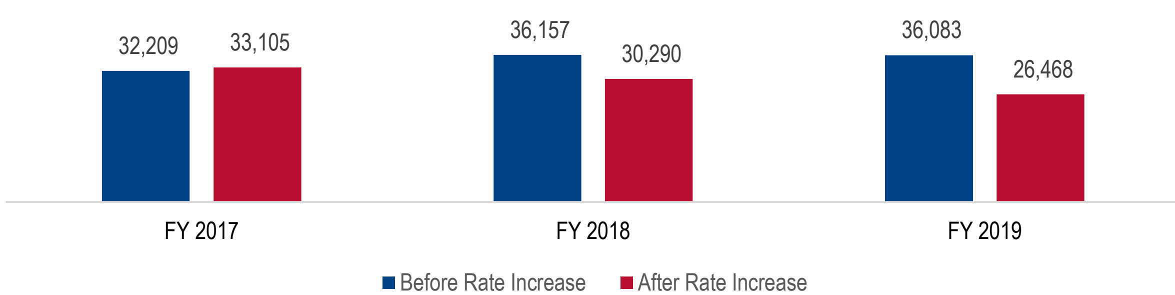
	Percentage Increase in Rate	Q2 Volume (000s)		Percentage Change in Volume
		Before Rate Change	After Rate Change	
FY 2017	4.3%	515,347	1,953,217	279.0%
FY 2018	2.0%	542,352	1,787,129	229.5%
FY 2019	10.0%	721,658	1,429,255	98.1%

[36] USPS also implemented a rate change from $0.49 to $0.47 Q3 FY 2016. This change was due to the expiration of the "exigent" rate increase earlier authorized by PRC to alleviate the financial damage to USPS from the 2008-09 recession, We did not include this rate change in analysis because mail volume is cyclical and volume patterns in Q3 may not be comparable to Q2.
[37] USPS. 2020. Rates for Domestic Letters Since 1863.
[38] Total volume before the rate change is smaller than after because the period is much shorter, e.g., for FY 2017 the period before the rate change was January 1-21, and the period after was from January 22 – March 31.
[39] USPS. Billing Determinants, FY 2017-19.

The percentage volume change before and after rate increases is also apparent by daily delivery volume. Daily delivery volume comparisons account for differences in the timing of rate changes as well as working days per quarter. To calculate the average delivery volume, we divided the total volume by the number of working days per period (all days except Sundays and federal holidays). The average daily volume of stamped letters after the rate increase in FY 2019 declined substantially more the previous fiscal years. (Figure A7.2)

- Daily volume during Q2 FY 2017 increased 2.8% from 32.2 million before the rate increase to 33.1 million after the rate increase.
- Daily volume during Q2 FY 2018 decreased 16.2% from 36.2 million before the rate increase to 30.3 million after the rate increase.
- Daily volume during Q2 FY 2019 decreased 26.6% from 36.0 million before the rate increase to 26.5 million after the rate increase.

Figure A7.2.
Average Daily Stamped Letter Volume During the Second Quarter (000s), FY 2017-19[40]



Changes in Total Fiscal Year Stamped Letter Volume Before and After Rate Increases

In addition to the immediate impact on second quarter stamped letter volume, we analyzed changes in total fiscal year volume before and after rate increases. The period before the rate increase includes Q1 and Q2 volume up until the rate increase (October to late January). The period after the rate increase includes Q2 volume from the day the new rate was implemented through Q4 (late January to September). Because the rate increase occurs towards the beginning of the fiscal year, total volume after the increase is higher than before.

Similar to the pattern observed with Q2 volume, the percentage change in total stamped letter volume after the rate change was smaller in FY 2019 compared to FY 2017 and FY 2018. (Table A7.3)

- Total volume was 71.1% higher in FY 2017 after the rate increase compared to FY 2017 before the rate increase (6.484 billion pieces compared to 3.790 billion pieces).

[40] USPS Billing Determinants, FY 2017-19. ndp analytics.

- Total volume was 63.3% higher in FY 2018 after the rate increase compared to FY 2018 before the rate increase (5.963 billion pieces compared to 3.651 billion pieces).
- Total volume was 42.7% higher in FY 2019 after the rate increase compared to FY 2019 before the rate increase (5.390 billion pieces compared to 3.776 billion pieces).

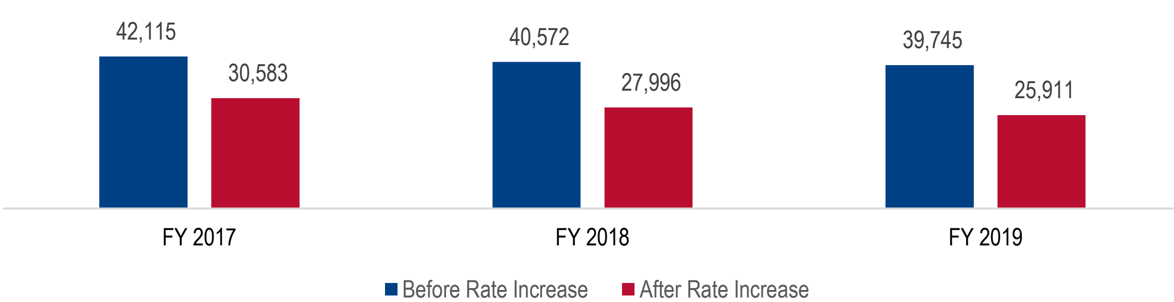
Table A7.3.
Change in Stamped Letter Volume Before and After Rate Increases During the Year, FY 2017-19[41]

	Percentage Increase in Rate	FY Volume (000s)		Percentage Change in Volume
		Before Rate Change	After Rate Change	
FY 2017	4.3%	3,790,324	6,483,518	71.1%
FY 2018	2.0%	3,651,446	5,963,114	63.3%
FY 2019	10.0%	3,775,781	5,389,567	42.7%

The impact of rates changes on stamped letter volume also apparent when analyzed by daily delivery volume. Again, to calculate the average delivery volume, we divided the total volume by the number of working days per period (all days except Sundays and federal holidays). The decline in average daily volume of stamped letters after the rate increase in FY 2019 was more pronounced than previous years. (Figure A7.3)

- Daily volume during FY 2017 declined 27.4% from 42.1 million pieces per day before the rate increase to 30.6 million pieces per day after the rate increase.
- Daily volume during FY 2018 declined 31.0% from 40.6 million pieces per day before the rate increase to 28.0 million pieces per day after the rate increase.
- Daily volume during FY 2019 declined 34.8% from 39.7 million pieces per day before the rate increase to 25.9 million pieces per day after the rate increase.

Figure A7.3.
Average Daily Stamped Letter Volume During the Year, FY 2017-19 (000s)[42]



[41] USPS Billing Determinants, FY 2017-19. ndp analytics.
[42] USPS Billing Determinants, FY 2017-2019.

Changes in Q1 Stamped Letter Volume Following Rate Increases the Year Prior

The final segment of this analysis focuses on first quarter stamped letter volume only. The first quarter of the USPS fiscal year (October-December) is the peak season for stamped letters and accounts for about one-third of total volume of compared to the rest of the year. Since rate increases were implemented in the second quarter of the fiscal year, we analyzed the performance of stamped letters in Q1 of the following fiscal year.

USPS first quarter of FY 2020 was the first peak season with a 55 cent first ounce stamp. Compared to prior years with rate increases, volume fell substantially. (Table A7.4)

- Q1 volume declined 5.1% from 3.275 billion pieces in FY 2017 to 3.109 billion in FY 2018.
- Q1 volume declined 1.8% from 3.109 billion pieces in FY 2018 to 3.054 billion in FY 2019.
- Q1 volume declined 11.0% from 3.054 billion pieces in FY 2019 to 2.716 billion in FY 2020.

Table A7.4.
Year Over Year Change in Q1 Stamped Letter Volume (October to December), FY 2017-20[43]

	Q1 First-Ounce Stamp Rate	Q1 Volume (000s)	Percent Change from Previous Year
FY 2017	0.47	3,274,978	
FY 2018	0.49	3,109,093	-5.1%
FY 2019	0.50	3,054,123	-1.8%
FY 2020	0.55	2,716,820	-11.0%

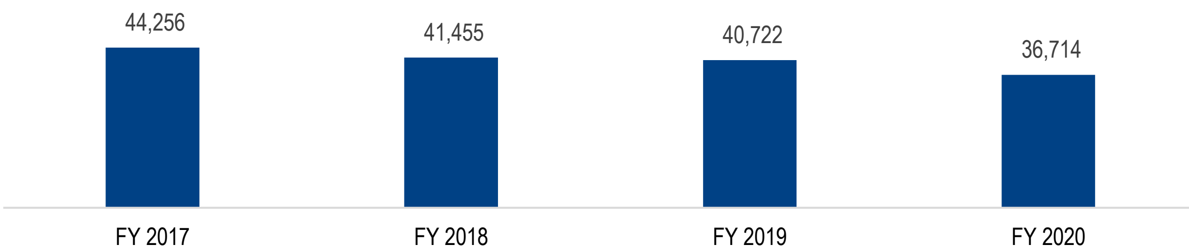
A similar pattern in volume decline is apparent when analyzed by daily delivery volume. Again, to calculate the average delivery volume, we divided the total volume by the number of working days per period (all days except Sundays and federal holidays). (Figure A7.4)

- Q1 daily volume declined 6.3% from 44.3 million pieces per day in FY 2017 to 41.5 million pieces per day in FY 2018.
- Q1 daily volume declined 1.8% from 41.5 million pieces per day in FY 2018 to 40.7 million pieces per day in FY 2019.
- Q1 daily volume declined 9.8% from 40.7 million pieces per day in FY 2019 to 36.7 million pieces per day in FY 2020.

[43] USPS Billing Determinants, FY 2017-20.

Figure A7.4.

Q1 Average Daily Stamped Letter Volume (000s), FY 2017-20[44]

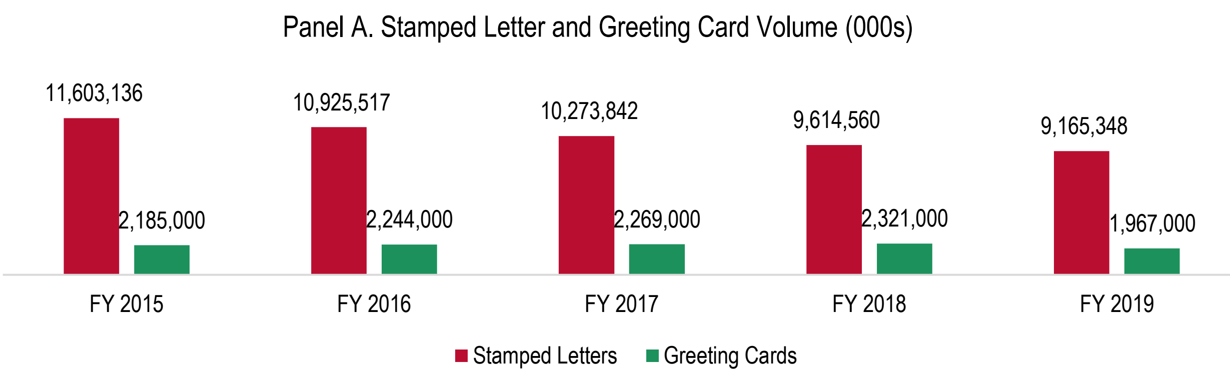


Section 2. Factors Impacted Greeting Card Volume

Greeting cards are a subset of stamped letters. Unlike the stamped letter category overall, greeting card volume has risen in recent years. From FY 2015 to FY 2018 greeting card volume grew 6.2% from about 2.2 million to 2.3 million while overall stamped letters declined 17.1% from 11.6 million to 9.6 million. However, greeting card volume declined abruptly in FY 2019, which was much steeper than the decline for stamped letters overall. Greeting card volume declined nearly 15.3% from 2.3 million pieces in FY 2018 to less than 2.0 million in FY 2019, and with a 10.0% cumulative decline in volume since FY 2015. (Figure A7.5)

Figure A7.5.

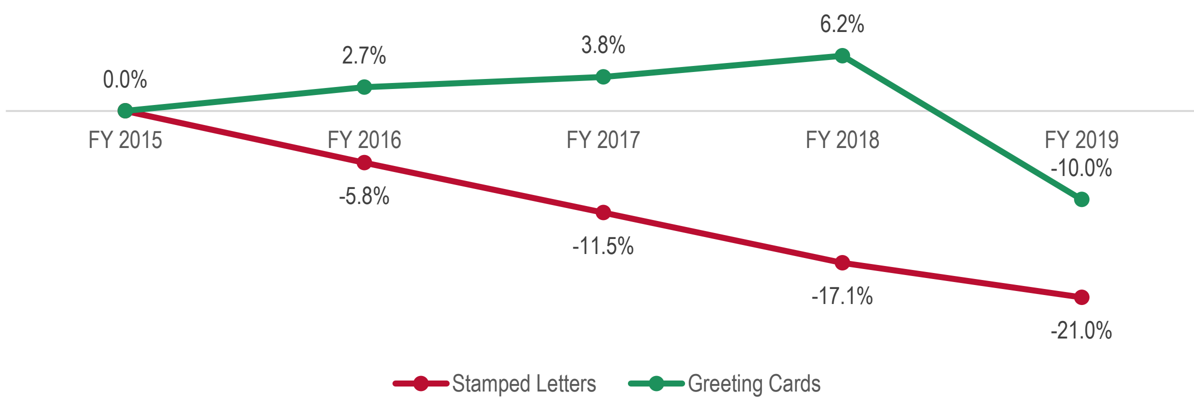
Stamped Letter Mail and Greeting Card Volume, FY 2015-19[45]



44 USPS Billing Determinants, FY 2017-20.

45 USPS Billing Determinants FY2015-19; USPS Household Diary Survey FY2019.

Panel B. Cumulative Change in Stamped Letter and Greeting Card Volume



Detailed quarterly data and data before and after rate changes are not available for greeting cards. So, to better understand the sharp decline in greeting card volume, we examined historical data for factors that impact greeting card sales overall and greeting card mail volume. These factors are described below and summarized in Table A7.5.

1. **Personal income & consumer spending:** Changes in personal income and consumer expenditures go hand in hand. As income rises, so does consumer spending on products and services. Market research identifies these two categories as positive drivers of greeting card sales. In other words, as personal income and consumer spending rise, greeting card volume is expected to increase. Moreover, since more than half of greeting card volume occurs during the holiday season, it is expected that changes in holiday spending will impact greeting card sales. For this analysis, we examine changes in personal income, consumer spending on nondurable goods, and holiday spending from FY 2015 to FY 2019.
2. **USPS marketing efforts:** USPS engaged in marketing efforts to promote greeting cards and other postal products and services. These efforts are expected to have a positive impact on greeting card mail volume. While no data is available on the success of USPS marketing efforts, we examine the timing of select marking campaigns and trends in holiday and non-holiday greeting cards during FY 2015 to FY 2019.
3. **Greeting card & postage costs:** Market research shows that, overall, consumers are sensitive to price changes in greeting cards and similar products. As a result, when costs related to purchasing and mailing cards rises, volume is expected to decline. For this analysis, we examine changes in greeting card prices and postage prices from FY 2015 to FY 2019.
4. **Electronic greeting card volume:** Market research related to the greeting card industry identifies online competition and increased volume of e-cards as negatively impacting physical greeting card volume. While there is no publicly available timeseries data on the total volume of e-cards, we reviewed USPS Household Diary Study data on internet cards and ad hoc reports to evaluate the patterns in e-cards and physical greeting card volume.

Table A7.5.
Summary of Factors Influencing Greeting Card Volume and Available Data

Relationship	Factor	Available Timeseries Data
Positive Greeting card volume is expected to increase factor increases	Personal Income	BEA Personal Income
	Consumer Spending	BEA Consumer Expenditures on Non-Durable Goods
	Holiday Retail Sales	National Retail Federation Holiday Sales (Nov-Dec retail sales excludes automobiles, gas stations and restaurants)
	USPS Marketing Efforts	No timeseries data available; Ad hoc information on select campaigns from USPS and third-party sources
Negative Greeting card volume is expected to decrease as factor increases	Greeting Card Prices	BLS Consumer Price Index (CPI-U) for stationery, stationery supplies, and gift wrap; Datapoints from ad hoc industry publications
	Postage Prices	USPS first ounce stamp prices
	Online Competition (E-Cards)	USPS Household Diary Survey and ad hoc third publications

Factors that Positively Influence Greeting Card Volume

We identified four positive factors influencing greeting card volume: personal income, consumer expenditures on nondurable goods, holiday spending, and USPS marketing efforts. Of these, timeseries data is available for personal income, consumer expenditures, and holiday spending. All these factors experienced growth each year from FY 2015 to FY 2019. (Table A7.6)

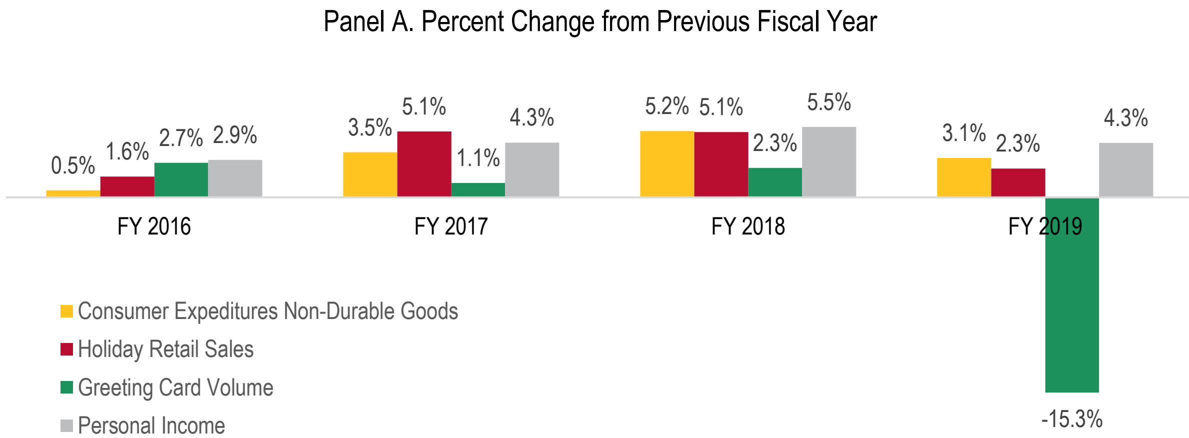
Table A7.6.
Personal Income, Consumer Spending & Holiday Sales (Billions), FY 2015-19[46]

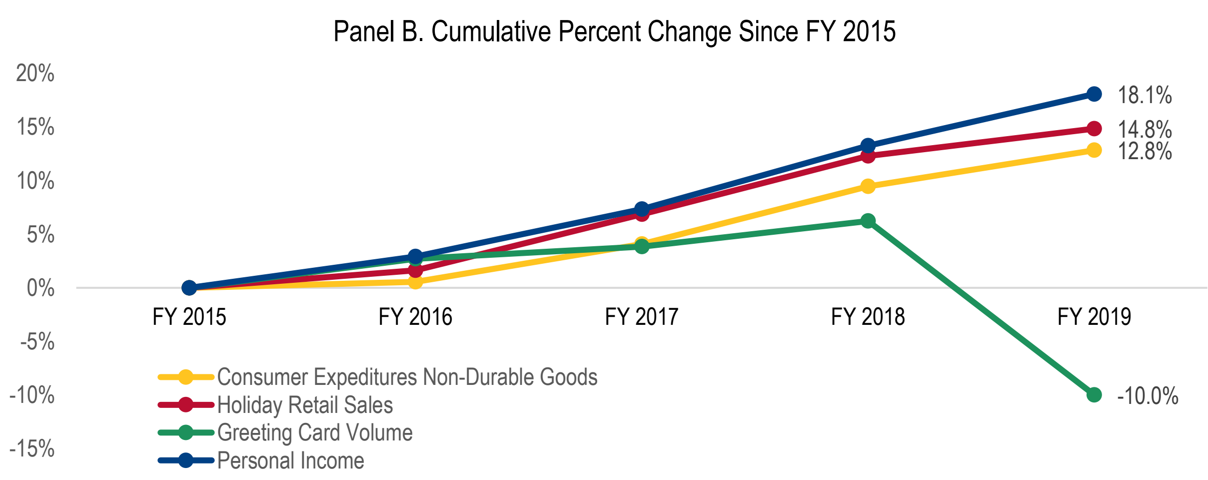
USPS Fiscal Year	Personal Income (Oct- Sept)	Consumer Spending Nondurable Goods (Oct- Sept)	Holiday Retail Sales (Nov-Dec)
FY 2015	$15,580.3	$2,618.9	$616.1
FY 2016	$16,036.3	$2,633.2	$626.1
FY 2017	$16,722.3	$2,725.8	$658.3
FY 2018	$17,642.8	$2,866.7	$691.9
FY 2019	$18,394.3	$2,954.6	$707.5

[46] BEA. National Income and Product Accounts. Quarterly Personal Income and Personal Consumption Expenditures by Major Type of Product, 2014-19; National Retail Federation. Holiday Retail Sales, 2014-18.

We compared the year over year and cumulative change in personal income, consumer spending, holiday sales, and greeting card volume from FY 2015 to FY 2019. Similar to these factors, mailed greeting cards also experienced growth until FY 2019. Total greeting card volume sent via USPS increased 6.2% from FY 2015 to FY 2018. During this time, personal income increased 13.2%, consumer spending increased 9.5%, and holiday sales increased 12.3%. In FY 2019, personal income, consumer spending, and holiday spending continued to rise, but greeting cards declined sharply. From FY 2018 to FY 2019 greeting card volume declined 15.3% resulting in a 10.0% cumulative decline since FY 2015. (Figure A7.6)

Figure A7.6.
Factors Positively Influencing Greeting Card Volume, FY 2015-19[47]

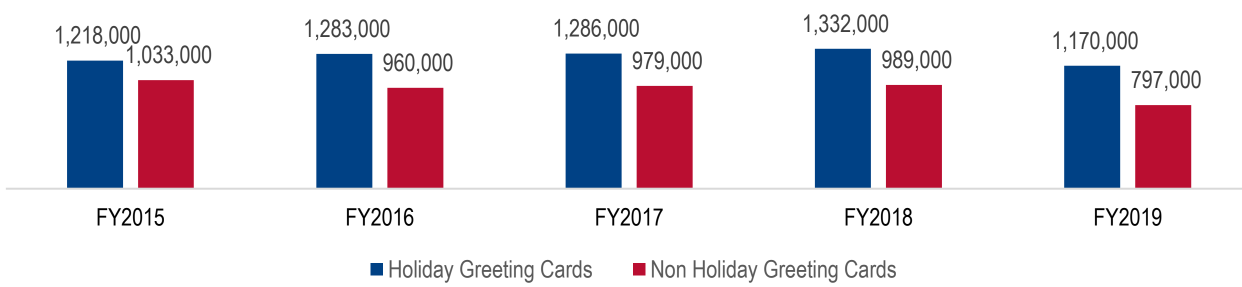




[47] BEA. National Income and Product Accounts. Quarterly Personal Income and Personal Consumption Expenditures by Major Type of Product, 2014-19; National Retail Federation. Holiday Retail Sales, 2014-18; USPS Household Diary Study.

While there is no quantitative data for USPS marketing efforts, the year over year increase in greeting card mail volume points to a positive impact. USPS marketing efforts have included partnerships with the Greeting Card Association (GCA) and seasonal greeting cards promotions.[48] For example, GCA and USPS partnered to promote holiday cards with a joint marketing campaign December 2017 (FY 2018).[49] Holiday cards from FY 2017 to FY 2018 increased 3.6%. Then, in September 2018, GCA and USPS partnered for "Thinking of You" week.[50] This annual event promotes greeting cards throughout the month of September. In 2018, both the holiday and "Thinking of you" campaigns corresponded with growth in holiday and non-holiday greeting card volumes. (Figure A7.7)

Figure A7.7.
Holiday and Non-Holiday Greeting Card Volume (000s), FY 2015-19[51]



Factors that Negatively Influence Greeting Card Volume

We identified three factors that have a negative relationship with greeting card sales: greeting card prices, stamp price and electronic diversion. Of these, we were able to collect timeseries data for stamp prices and greeting card prices (proxied by CPI for stationery). First ounce postage prices are available from USPS. Since postal rates change mid-year, we calculated the weighted average rate based on the number of days in the fiscal year with each rate. While timeseries data is not available for greeting card prices, we use BLS Consumer Price Index for All Urban Consumers (CPI) for stationery, stationery supplies, and gift wrap as a proxy. This category includes greeting cards and is in line with greeting card industry reports on average card prices. Specifically, industry reports suggest that greeting card prices have remained relatively steady over five-year period from FY 2015 to FY 2019 averaging between $2.00 and $4.00 per card during this period.[52] The CPI for stationery remained relatively unchanged over this period. (Table A7.7)

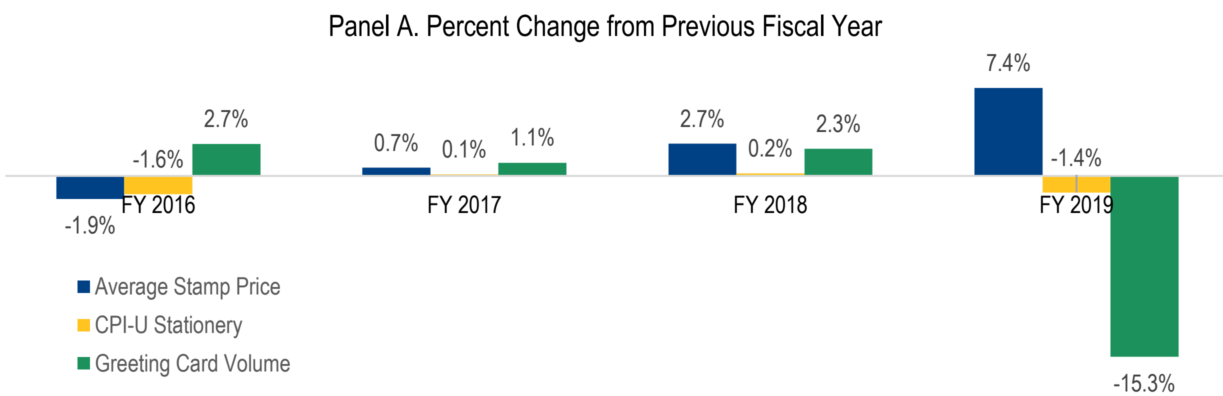
48 USPS. 2019. "Greet News: Mail Volume Shows Growth for Cards." USPS News. September 20.
49 GCA. 2017. "GCA Teams Up with USPS For First Ever Holiday Card Campaign." Greeting Card Association. December 6.
50 GCA. "Thinking of You Week Is About the Personal Touch." https://www.thinkingofyouweekusa.com/about/
51 BEA. National Income and Product Accounts. Quarterly Personal Income and Personal Consumption Expenditures by Major Type of Product, 2014-19; National Retail Federation. Holiday Retail Sales, 2014-18; USPS Household Diary Study.
52 Greeting Card Association. Industry Facts and Figures Reports.

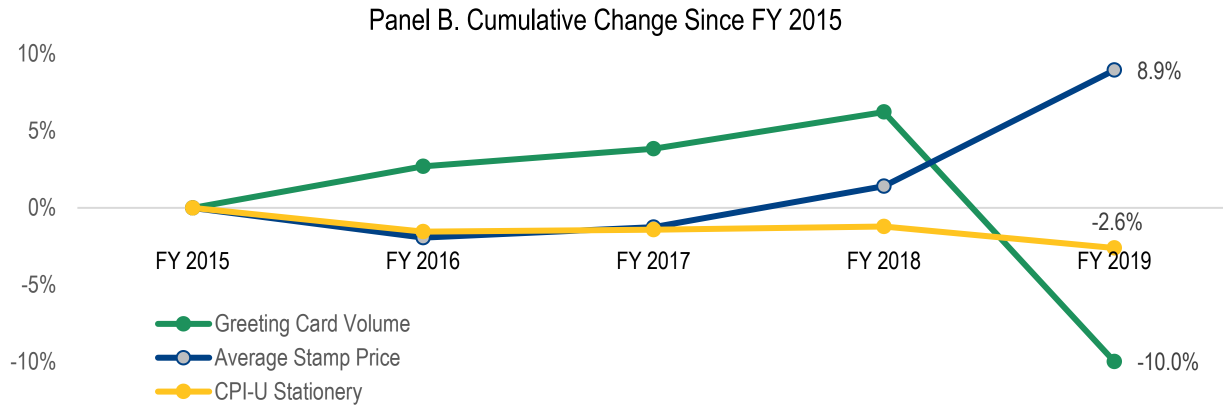
Table A7.7.
Stamp Price and Stationery Prices, FY 2015-19

	First Ounce Stamp Price			CPI-U Stationery Average (Oct- Sept)
	FY Start (Oct 1)	FY End (Sept 30)	FY Average	
FY 2015	0.49	0.49	0.49	152.4
FY 2016	0.49	0.47	0.48	150.0
FY 2017	0.47	0.49	0.48	150.2
FY 2018	0.49	0.50	0.50	150.5
FY 2019	0.50	0.55	0.53	148.4

We compared the year over year and cumulative change in average stamp price, CPI for stationery and greeting card volume from FY 2015 to FY 2019. Greeting card volume rose 2.7% from FY 2015 to FY 2016 when average stamp prices and stationery prices declined. Two years later, despite a 2.7% increase in average stamp prices in FY 2018 from FY 2017, greeting card volume rose 2.3%. However, the following year when the average stamp prices rose 7.4%, greeting card volume declined 15.3%. In total, during this period (FY 2015-19), CPI for stationery declined 2.6% and the average price for a stamp increased 8.9%. (Figure A7.8)

Figure A7.8.
Factors Negatively Influencing Greeting Card Volume, FY 2015-19





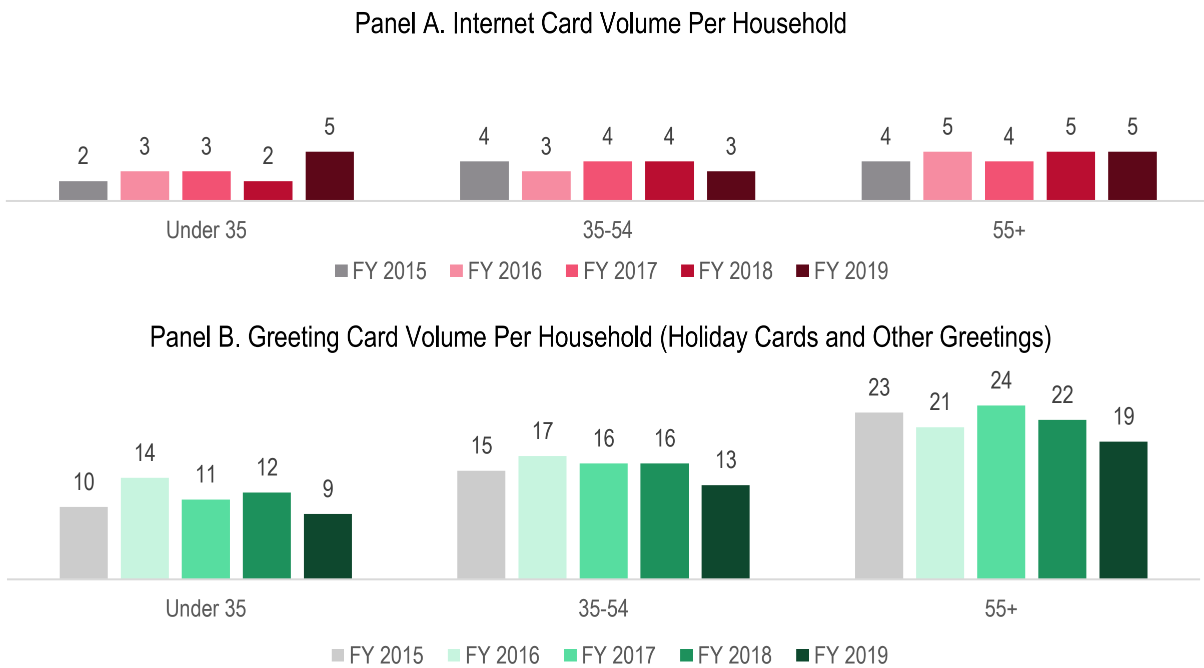
It is expected that greeting card volume decreases when price increases. Since the price of greeting cards did not increase during this period, it is unlikely that the price of greeting cards had a negative impact on changes in greeting card volume. On the other hand, first ounce stamp prices increased substantially. Initially, first ounce stamp prices declined from 49 cents in FY 2015 to 47 cents in FY 2016. Since then, the price of a stamp has increased. However, the rate increase from 50 cents to 55 cents during FY 2019 was, by far, the largest.

The final factor that negatively impacts greeting card volume is electronic diversion to e-cards. While there is no publicly available data on total e- card volume, some industry market research firms attribute declines in industry revenue to electronic diversion. For example, IBIS World found that the total revenue of the greeting card and other publishing industry declined by 1.8% on average each year due to the "proliferation of paperless substitutes."[53]

However, most households have been slow to adopt e-cards. The USPS Household Diary Study analyzes internet cards in addition to mailed greeting cards by head of household age. There appears to be some substitution for e-cards by households under 35 years old, but not older demographics. From FY 2018 to FY 2019, the number of internet card sent by households under 35 increased by 3 while the number of greeting cards (holiday plus other greetings) declined by 3. For the other age groups there was no indication of substitution. For households ages 35 to 54, both the number of internet and greeting cards declined from FY 2018 to FY 2019. For households ages 55 and older, which send the most greeting cards, the number of internet cards remained constant while the number of greeting cards declined. (Figure A7.9)

[53] IBISWorld. 2020. Greeting Cards & Other Publishing Industry in the US - Market Research Report. February 29.

Figure A7.9.
Internet and Greeting Cards Sent Per Household by Age, FY 2015-19[54]



Another component of electronic diversion that is not captured with e-cards is use of social media and other types of communication in place of greeting cards. While the share of adults under 50 that use social media has remained relatively steady from 2015 to 2019, the share of adults ages 50-64 has increased significantly from 51% to 69%. Therefore, it is possible that some of these users are turning to social media as a substitute for greeting cards.

Comparison of All Factors

We examined the year over year and cumulative changes in the factors together. In terms of consumer behavior, consumers react to year over year changes more than cumulative changes over time. So, even though the cumulative increase in stamp prices is lower than increases in personal income and consumer spending (holiday and overall), the sharp rate increase FY 2019 seems to have created a shock for mailed greeting card volume.

The only major difference in FY 2019 compared to prior years is the increase in average postal prices and the magnitude of the increase compared to other factors. Year over year growth for personal income,

[54] Pew Research Center. 2019. Social Media Fact Sheet. June 12.

consumer spending, and holiday sales growth was positive, but had slowed in FY 2019 compared to FY 2018. In contrast, the increase in postal prices was substantial. The 7.4% increase in the average stamp price from FY 2018 to FY 2019, far outpaced positive changes in all other factors. (Table A7.8)

Table A7.8.

Comparison of Greeting Card Volume and All Factors, FY 2015-19

Panel A. Year Over Year Change

		FY 2016	FY 2017	FY 2018	FY 2019
Greeting Card Volume		**2.7%**	**1.1%**	**2.3%**	**-15.3%**
Positive Factors	Personal Income	2.9%	4.3%	5.5%	4.3%
	Consumer Spending	0.5%	3.5%	5.2%	3.1%
	Holiday Retail Sales	1.6%	5.1%	5.1%	2.3%
	USPS Marketing Efforts	+			
Negative Factors	Average Stamp Price	-1.9%	0.7%	2.7%	7.4%
	Stationery Prices (CPI)	-1.6%	0.1%	0.2%	-1.4%
	Electronic Diversion (E-cards)	-			

Green: Positive influence on greeting card volume
Orange: Limited influence on greeting card volume (YOY absolute value is less than 1%)
Red: Negative influence on greeting card volume

Panel B. Cumulative Change

		FY 2016	FY 2017	FY 2018	FY 2019
Greeting Card Volume		**2.7%**	**3.8%**	**6.2%**	**-10.0%**
Positive Factors	Personal Income	2.9%	7.3%	13.2%	18.1%
	Consumer Spending	0.5%	4.1%	9.5%	12.8%
	Holiday Sales	1.6%	6.8%	12.3%	14.8%
	USPS Marketing Efforts	+			
Negative Factors	Average Stamp Price	-1.9%	-1.3%	1.4%	8.9%
	Stationery Prices (CPI)	-1.6%	-1.4%	-1.2%	-2.6%
	Electronic Diversion (E-cards)	-			

While total e-card volume data is not available, electronic diversion to e-cards had negative impact on greeting card volume, especially for younger households (under 35). However, these households send much fewer cards than older households (35 and older). The change the number of greeting cards sent for older households cannot be attributed to e-cards. The degree to which social media is factor in greeting card decline in unknown.

At the same time, USPS marking campaigns and holiday promotions have corresponded with increased greeting card volume in the past. Despite the steep decline in FY 2019 volume, it is possible that these campaigns have prevented greeting cards from further volume losses.

In sum, the upward trend of greeting card growth that USPS realized from FY 2015 to FY 2018, was completely erased when volume fell 15.3% in FY 2019. There are numerous factors that influence greeting card volume. Data is available for some of these factors, but not all. Key drivers of greeting card growth, such as personal income, consumer spending, and holiday sales, all continued to rise in FY 2019 and cannot explain the sharp decline in cards. On the other hand, the increase in stamp prices stands out as a factor that could contribute to lower greeting card volumes. The evident importance of price in this analysis appears sufficient to motivate re-thinking by USPS of its pricing policy for single-piece letters. To understand the changes in FY 2019 greeting card volume even more completely, however, more research is needed on consumer trends, including preferred methods of sending greeting cards and greeting card substitutes such as e-cards, social media, and other types of correspondence.

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APPENDIX 8.
Exploring Mail Volume Impact from the PRC's Proposed Rate Structure[55]

Executive Summary

In 2017, the print & mail communication channel accounted for an estimated 35% of total communication volumes sent through a range of channels, inclusive of email, mobile, social media and company webpages. This illustrates that mail continues to be an important part of the communication mix. However, budgets for mailed communications are under pressure, with cannibalization from digital communications being a market reality. This affects all forms of customer communications, whether they be statements & bills, marketing mail, customer care, or regulatory information.

An objective of the study was to examine the likely impact of the Commission's recommendations. To achieve this, study participants were provided a succinct description of the Commission's Notice of Proposed Rulemaking, and were then asked a series of questions to measure the mailer respondents' level of concern and likely reactions. The study found that the percentage of companies that become very concerned increase significantly with the level of potential mail rate increase. Whereas 15% of companies were very concerned with a postal rate increase tied to only the CPI inflation rate, it jumps to 28% when the potential rate increase is the CPI inflation rate plus an additional 3%.

Also, when asked about the likely impact on mail volumes if the various ranges of postal rate increases were to be implemented, the percentage of companies that indicated a significant decrease would be the result jumps from 13% (CPI) to 20% (CPI + 2%) to finally 28% (CPI + 3%). This suggests that if the postal rate increases were to go into effect, then the already strong tail wind pushing print & mail budgets to digital channels will increase. As a result, a significant number of mailers are likely to reduce mail volumes being sent through the U.S. Postal Service.

Key Findings

- Survey respondents averaged 12.3 million mail pieces each sent via the USPS in 2017
- Print & mail accounted for an estimated 35% of total communications volume, with digital channels making up the other 65% of volume
- Thirty-five percent of mailers indicated that they will continue to use mail because it is a valuable channel, and will wait and see what happens with postage increases before taking action.
- Primary reasons why enterprises and public sector entities communicate by mail include that it is viewed as the most effective channel, it provides the best response rates, it offers better control of cost per message, and it is the recipient's preference
- Primary barriers to communicating via the USPS include high total end-to-end costs, the time-consuming nature of executing a mail campaign, concerns about future rate increases, and lack of visibility into delivery and related metrics
- A postal rate increase tied to the CPI inflation rate alone has 15% of companies very concerned, whereas 28% are very concerned when the potential rate increase is the CPI inflation rate plus an additional 3%.

[55] InfoTrends. 2017. White Paper: Exploring Mail Volume Impact from the PRC's Proposed Rate Structure. February.

- About 34% of companies expect to decrease their mail volumes with a postal rate increase tied to the CPI inflation rate alone. At CPI + 2%, that sentiment grows to 41%, and with CPI + 3%, it rises further to 45% who expect to decrease mail volumes.
- While some companies expect to increase mail volumes despite postal rate increases, the expected average decline in mail volume goes from -2.1% at the CPI inflation rate, to -3.2% at CPI plus 2%, to -4.3% at CPI plus 3%.
- A postal rate increase of CPI plus 2%, if implemented each of the five years, would lead to a 19% increase in postal rates, assuming an inflation rate of 1.5%. If the postal rate increase were 3%, the resulting postal rate increase would be 25%.
- Responding companies cite that postal rate increases will result in layoffs at 26% of these organizations, with a mean reduction of 12 employees per company. Applying these statistics to the number of firms with 500 or more employees within Finance & Insurance, Healthcare and Social Assistance, Retail Trade, Wholesale Trade, Telecommunications and Utilities, highlights that over 3,000 firms could be impacted by layoffs, with a potential of over 36,000 mailing-related positions being terminated.

Conclusions

Potential cost increases of 19% to 25% resulting from the Commission's recommendations would have a significant impact on the mailing industry, which already suffers from competitive pressures. The U.S. Postal Service needs to improve its financial performance; however, the challenge is to manage the delicate balance of its pricing model, infrastructure and operational costs, as well as service performance. Market factors that should be examined when considering the Commission's recommendations include:

Although the U.S. Postal Service may not exercise its authority each year, many mailers will factor this risk into their future communication strategies and investment priorities. As a result, price increases of this nature could accelerate the transition to greater use of digital channels of communication.

Potential postal rate increases need to be weighed against a likely increased level of cannibalization to determine if increased revenues at the per mail piece level would offset the decline from total mail volume.
Postal rate increases, to be effective, would have to be matched by a reduction in the Postal Services operational costs.