



# Focus Topic: Postal Update

May 2008



**Verso simple.**



# Timeline of Historical Postal Events

- 1775** - Benjamin Franklin appointed first Postmaster General by the Continental Congress
- 1847** - US postage stamps issued
- 1860** - Pony express began
- 1873** - US Postal cards issued
- 1874** - General Postal Union (now Universal Postal Union) established
- 1893** - First commemorative stamps issued
- 1918** - Scheduled airmail service began
- 1950** - Residential deliveries reduced to one a day
- 1963** - ZIP code inaugurated
- 1970** - Experimental Express Mail® service began
- 1971** - Labor contract negotiated through collective bargaining, a federal government "first"
- 1974** - Self-adhesive stamps introduced
- 1982** - Last year Postal Service accepted public service subsidy
- 1997** - Postal Service™ launched public internet site
- 2002** - President's Commission on the US Postal Service® established

**Verso simple.**



# Review of Sweeping Postal Reform Highlights enacted in 2007

- **Postal Accountability and Enhancement Act of 2006 (PAEA) was signed into law on 12/20/06** (PAEA HAS NO BEARING ON THE R2006-1 RATE CASE DISCUSSED IN THIS PRESENTATION NOR THE ONE TENTATIVELY PLANNED FOR LATE 2007 / EARLY 2008)
- **A new Postal Regulatory Commission will replace the Postal Rate Commission. It will be composed of five commissioners, with not more than three coming from the same political party.**
- **Future rates will be based on the Consumer Price Index** (THIS IS NOT A PERMANENT CHANGE BUT WILL BE IN EFFECT FOR 10 YEARS AT WHICH TIME IT WILL BE REVIEWED BY THE POSTAL REGULATORY COMMISSION)
- **The new law states that the average rate cannot rise above the CPI, which has 3 percent rate caps.** (EMPHASIS IS ON THE WORD "AVERAGE". THE USPS CAN STILL DO WHATEVER IT WANTS AS LONG AS THE AVERAGE RATE STAYS WITHIN THOSE GUIDELINES)
- **Changes to UPSP employees Workers Compensation**
- **Transfer of payment for pension costs associated with military service credits for USPS employees that served in the armed forces from the postal rate payer to the taxpayer.**

**Verso simple.**



## 2008 Postal Rate Increase

The 2008 rate increase went into effect on **May 12<sup>th</sup>**.

Under the new law (*The Postal Accountability and Enhancement Act*), prices for mailing services are adjusted each year during the month of May. Nearly consistent with the Postal Service intent to provide 90 days notice of any price increases, the announcement for the 2008 increase was made on Feb 22<sup>nd</sup>.

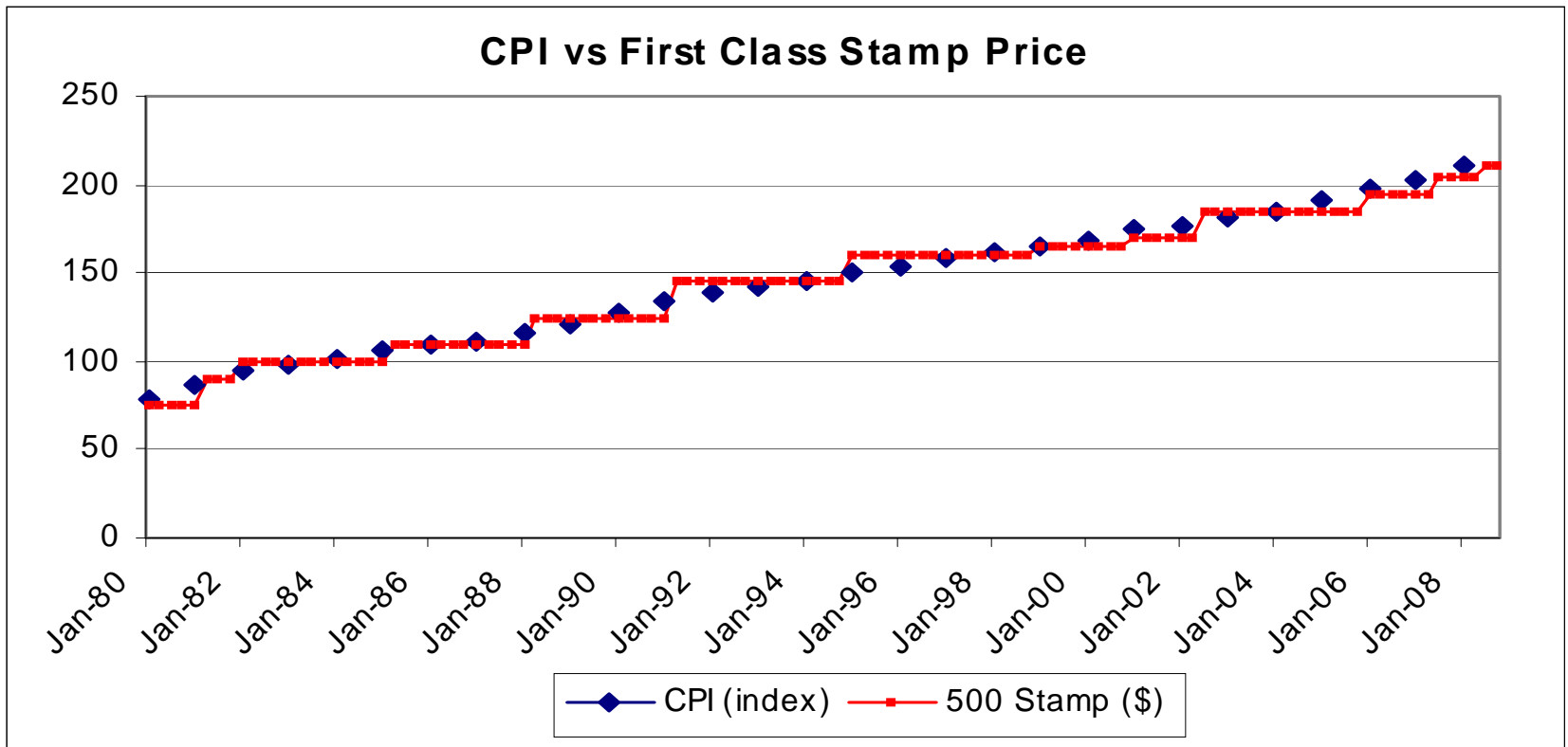
Considering all US Postal products, this increase is projected to produce about \$735 million in additional revenue through the end of this fiscal year. Prices for these products will increase by an average of **2.9 percent** at the class level, conforming to the law's requirement that they not exceed the rate of inflation as measured by the Consumer Price Index. Combined with planned cost reductions of \$1 billion, the USPS hopes to reduce its projected 2008 loss from \$2 billion to \$265 million.

**Verso simple.**



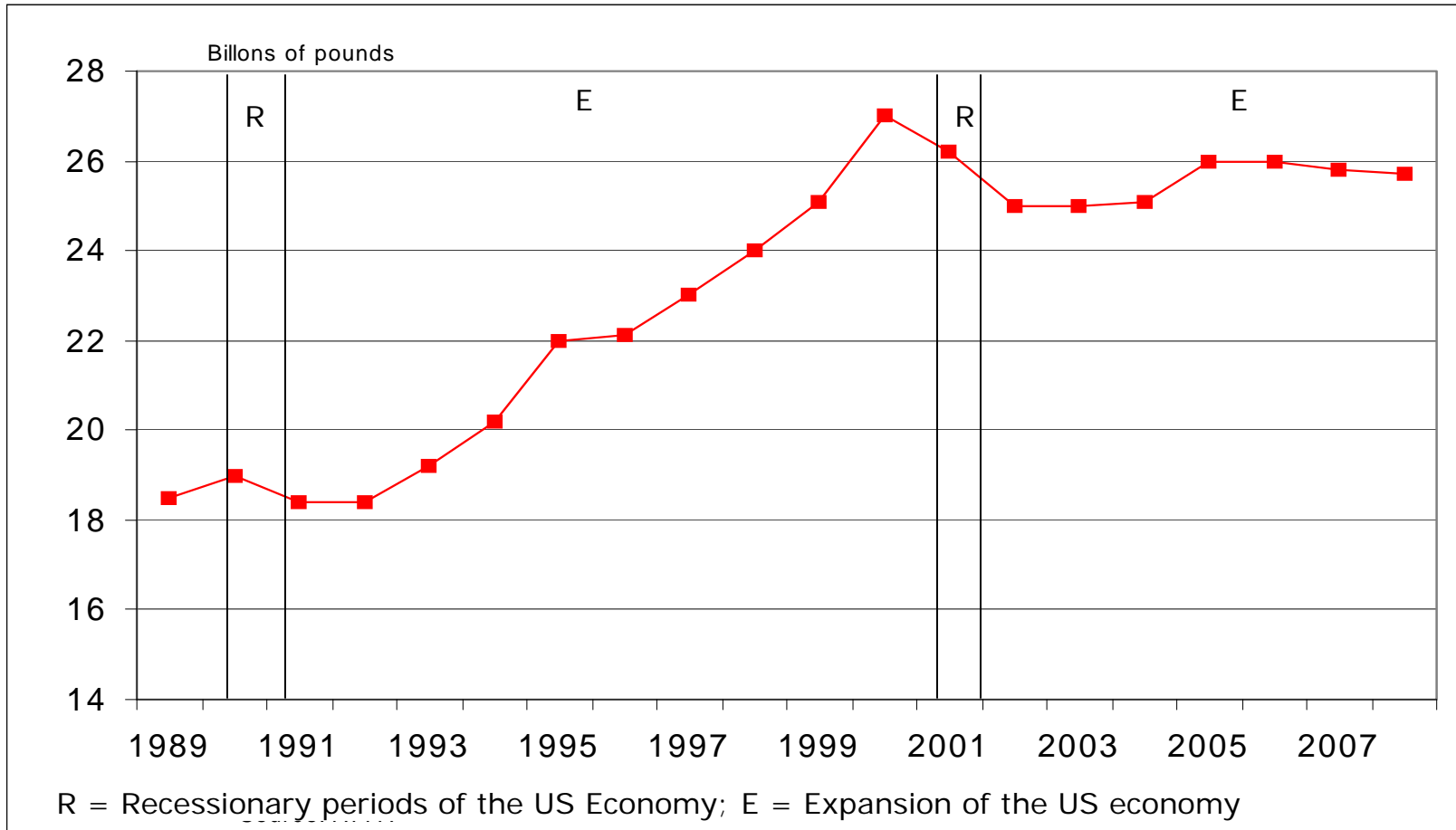
# Relationship between CPI and Price of First Class Stamp

The postal rate hikes plotted against the Consumer Price Index shows each increasing at a similar rate over the past 28 years





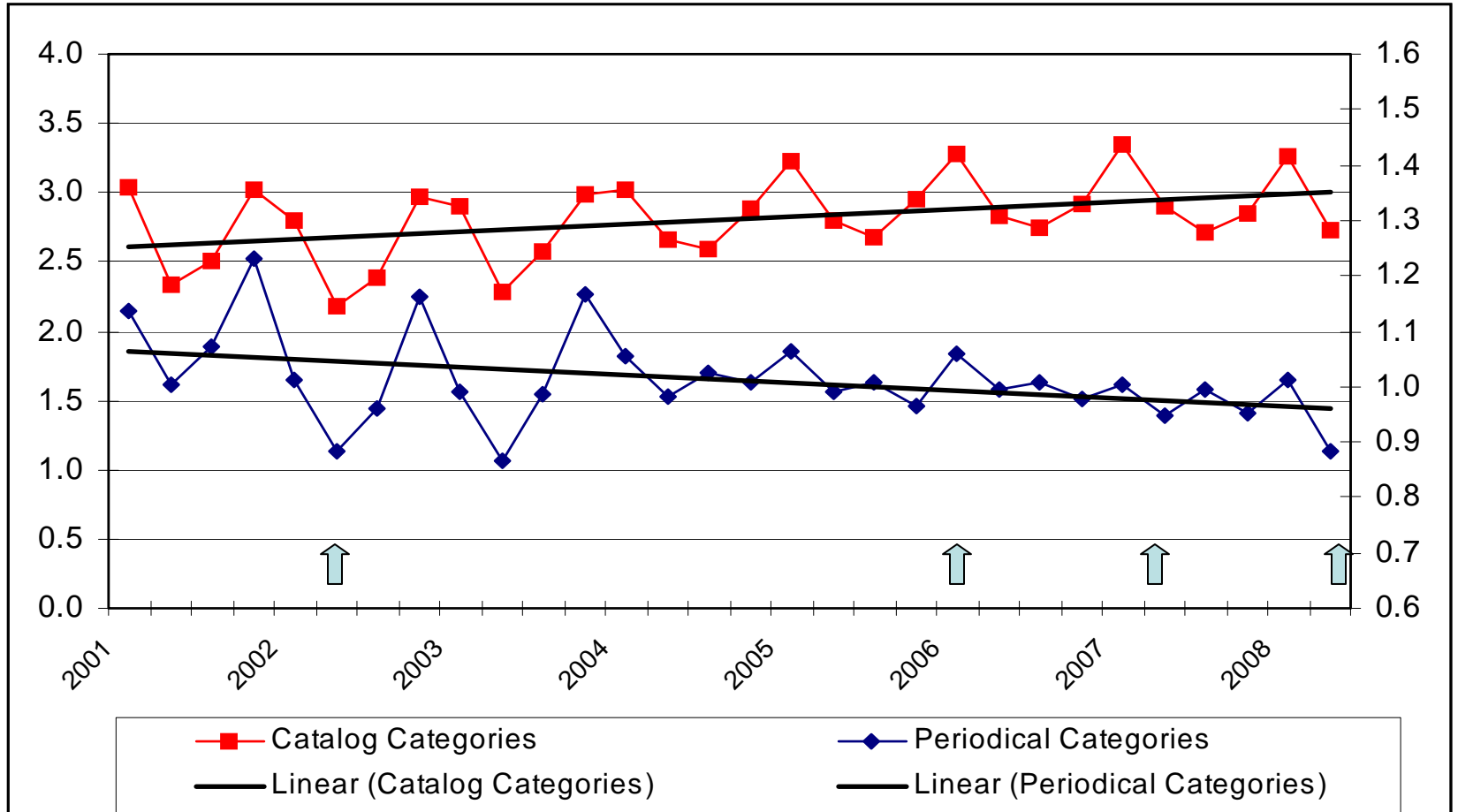
**Total Mail Volume shows good correlation to expansions and contractions of the economy, but there has been only a modest increase in mail volume during the most recent expansion**



**Verso simple.**



Over the past 30 quarters Piece Weight for Periodicals have shown decline while Standard Mail is still climbing (albeit at a decreasing rate)



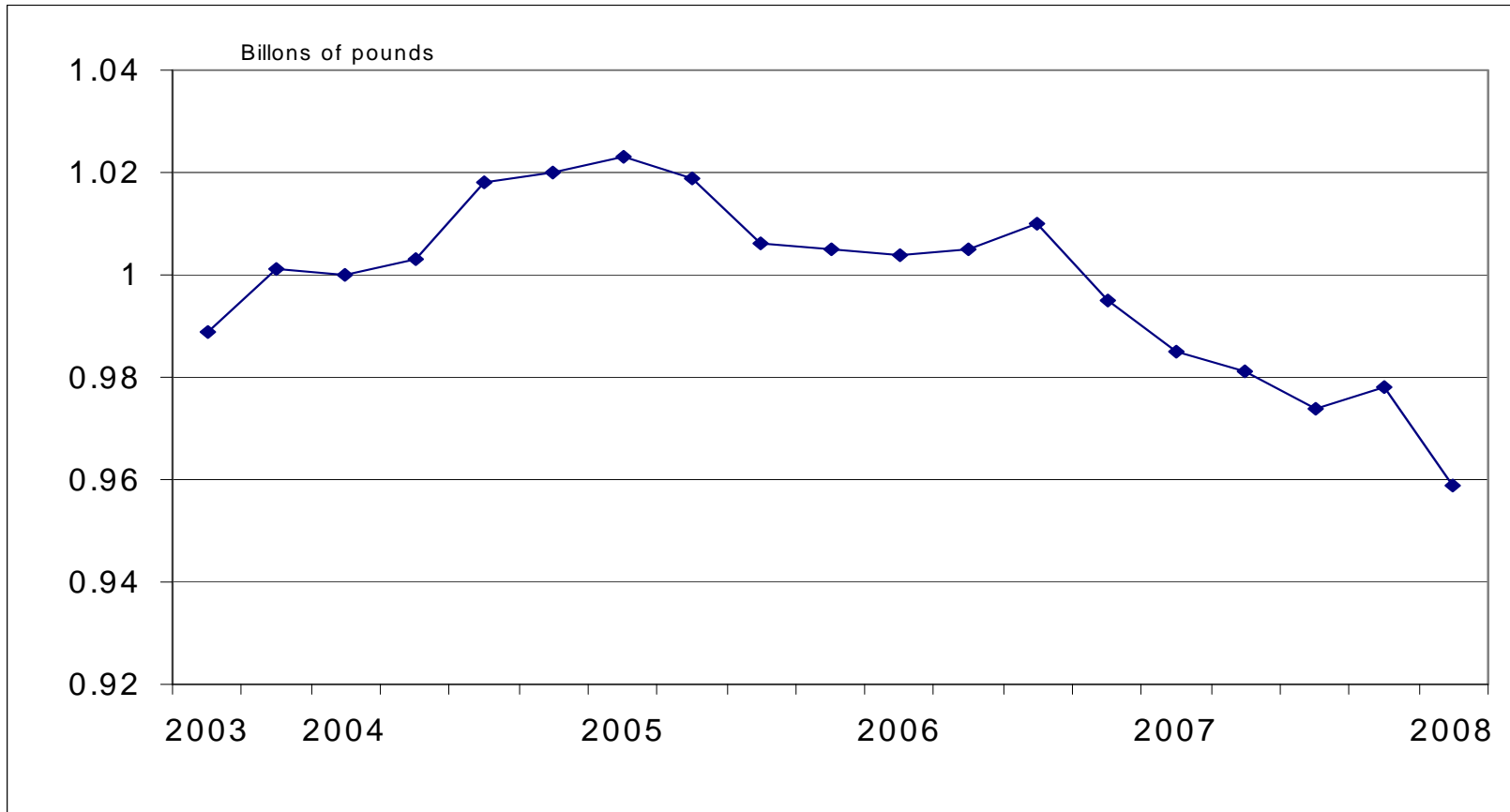
↑ = Postal increases events

Verso simple.

Source: USPS



**Closer inspection of the Piece Weight mail volume (rolling 4 quarter average) shows Periodicals have seen a 2.9% decline since '06.**



**Verso simple.**

Source: USPS



## Future mail volume will likely be influenced by two opposing campaigns that are growing in awareness in the paper industry

### “Do Not Mail” Campaign

- 15 states introduced Do Not Mail legislation in 2007
- The campaign is the product of a nonprofit organization called ForestEthics and backed by Hollywood celebrities such as Adrian Grenier and Daryl Hannah.
- The measures generally call for the establishment of a state-based registry of consumers who do not wish to receive direct mail advertising and harsh civil penalties and potential litigation for offenders.

### “Mail Moves America” Campaign

- Advertising mail accounts for millions of jobs in the US. According to DMA research, 459,500 people were directly employed in direct mail marketing in 2007. Another 3.1 million US jobs were made possible in 2007 by direct mail marketing.
- Twenty-five associations and 25 companies formed the Mail Moves America coalition (MMA) in late 2006 as a broad based coalition to achieve two purposes: defend against Do Not Mail legislation and develop a more positive message and image for advertising mail.

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