



MOVING COMMUNICATION FORWARD



The EMA Wednesday Report

Wednesday, June 3, 2020

Three Page Issue

Good Morning/Good Afternoon:

Here is Wednesday report Number 13. This will be the last Wednesday report as we will convert back to regular communications. We believe we can now focus on our usual array of reports and analysis and give you back your time to continue to move forward. Most of the Federal Task Forces we have been on are winding up their work. The Essential Industries List will remain the same, and we will use it when and if this happens again. I want to thank all of you for your time, comments, and efforts as we take this slow road back to the future.

USPS Wednesday Meeting (Note we are only meeting on Monday and Friday, but the days were changed in consideration of the Memorial Day Holiday)

- Overall mail volume is down 26.9 percent. Package volume is up 80 percent. First-Class Single piece was down 10.6 percent. Presort First was down 8 percent.
- The Postal Regulatory Commission has issued the April Financial Statement; details are below.
- The consensus view is that mail volume is improving, but slowly.
- Mail volume held during March and April is now being delivered. The USPS expects to clear out the backlog of mail by mid-June. The employment complement is up slightly with temporary workers to help clear out the backlog and replace those who are still hospitalized due to COVID-19.

USPS Friday Meeting

- The pace of our meetings with the USPS will slow, meetings will continue two times a week for now. Any major announcements will come via the MIB or a special announcement.
- Spot mail volume is starting to improve. This week with a two-day sample, mail volume is down 23.6 percent that is an improvement from Wednesday's spot report. Package volume is up to 99 percent of the sample. Single piece First is down 9.1 percent, and Presort First is down 12.5 percent. Marketing Mail is down 34.2 percent that is an improvement, and Periodicals are down 17 percent. Again, the real numbers that have been audited are below.

American Forest and Paper Association

- Most states are in the various processes of reopening. Over 20 are fully open.
- Consult your State OSHA office for any opening protocols. The states are developing their guidelines, a number have yet to be issued, but they are coming. We will put information on the EMA website.
- We are moving these meetings back to one time per month, or as needed, so EMA will publish anything significant in the MIB.

Homeland Security and FEMA (CISA)

- Things are slowly winding down at CISA-14, and employees are slowly returning to their regular jobs. Given the hurricane season that is approaching, they are reminding all participants that their focus may change as they return to normal operations.

- There will be few changes to the essential industries list. CISA is retaining the list in case of future outbreaks, but as the pandemic winds down, the current version of the list will be maintained. Most of the ongoing work will be handled in the field and in coordination with the state offices.

The CISA website (www.cisa.gov) includes information and updates as well as a blog/newsroom section with helpful information. There is also a link to CISA on the EMA website at www.envelope.org.

Legislation

Congress introduces the Postal Preservation Act... Representative Carolyn Maloney (D-NY), Chairwoman of the House Oversight and Government Reform Committee, Rep. Peter King (R-NY), and Rep. Gerald E. Connolly (D-VA), the Chairman of the Subcommittee on Government Operations just introduced the "Postal Preservation Act." The bill would create an emergency \$25 billion appropriation to the Postal Service to offset the impact of the COVID-19 pandemic. The legislation also contains provisions for oversight of how the funding can be used. The press release announcing the legislation - including a link to the draft bill - <https://oversight.house.gov/news/press-releases/bipartisan-lawmakers-introduce-postal-preservation-act-to-save-the-postal>

Postal Finances

The USPS issued its financial report for April. This is not the last report that was for the quarter; this is a monthly report. I have scanned the second page of the four-page report, and I have attached the entire report as an exhibit to this report. It shows that for April, First-Class Mail volume declined by 8.9 percent, and Year-to-Date volume is down 3 percent. Marketing Mail was down 45 percent in April and is down 11.3 percent for the year.

Mail Volume and Mail Revenue (Source: Results derived from reclassified products based on Postal Service Revenue Prices and Weight Reports)

USPS Financial Information (Unaudited)	Current Period		Year-to-Date	
	Actual	% Change	Actual	% Change
April 2020				
(Thousands)				
Mail & Dominant Products:				
First-Class Mail®	4,192,000	-8.9%	17,888,000	-3.9%
Volume	4,192,000	-8.9%	17,888,000	-3.9%
Revenue	\$1,469,800	-12.0%	\$14,960,200	-1.4%
Marketing Mail™	547,970	-11.1%	2,712,700	-11.9%
Volume	547,970	-11.1%	2,712,700	-11.9%
Revenue	\$67,970	-13.4%	\$640,200	-10.4%
USPS Marketing Mail™	3,446,750	-9.0%	14,175,300	-11.9%
Volume	3,446,750	-9.0%	14,175,300	-11.9%
Revenue	\$1,391,830	-10.1%	\$13,319,700	-9.9%
Package Services:				
Volume	46,500	0.1%	342,200	74.7%
Revenue	\$70,670	30.2%	\$493,470	44.3%
All Other Market Comment Mail:				
Volume	12,250	-28.2%	180,700	-18.9%
Revenue	\$67,650	-22.2%	\$1,907,630	-6.4%
Total Mail & Dominant Products¹:				
Volume	8,299,520	-10.1%	35,239,600	-9.9%
Revenue	\$1,956,130	-11.3%	\$21,720,660	-2.7%
Competitive Products:				
Shipping and Package Services:				
Volume	580,120	44.3%	3,300,200	3,300.2%
Revenue	\$2,223,240	\$1,220,000	\$19,177,200	\$12,720,200
All Other Competitive Products:				
Volume	899,710	884.4%	669,700	822.9%
Revenue				
Total Competitive Products²:				
Volume	1,479,830	44.3%	4,000,100	4,000.1%
Revenue	\$2,223,240	\$1,220,000	\$19,177,200	\$12,720,200
International:				
Volume	22,700	0.0%	242,200	242.2%
Revenue	\$10,900	\$200,720	\$1,424,900	\$1,424.9%
Total:				
Total Volume	9,779,350	-10.1%	40,239,700	-9.9%
Total Revenue	\$6,699,150	\$5,910,000	\$42,273,160	\$41,165,000
International by Category³:				
(Thousands)				
Mail & Dominant Products:				
Volume	6,700	-0.1%	265,440	44.3%
Revenue	\$10,800	\$1,700	\$75,300	\$64,000
Competitive Products:				
Volume	13,000	-15.4%	155,630	155.6%
Revenue	\$19,240	\$14,900	\$1,040,200	\$940,300
Total International:				
Total Volume	22,700	-15.4%	242,200	242.2%
Total Revenue	\$110,900	\$166,720	\$1,625,100	\$1,484,300

1. April 2020 had the same number of delivery and retail days compared to April 2019. YTD has two more delivery days and retail days compared to 2019.

2. Excludes International Volume & Revenue.

3. International volume and revenue broken out by Market Dominant and Competitive.

4. The difference in USPS revenues and volume are due to additional digital or other products at each quarter-end and required by the regulator. The differences are only at the product level and do not impact total operating revenue.

Number in red text indicates rounding or other adjustments. Percentages calculated using dollar amounts. The sampling portion of the BPS system is designed to be statistically valid on a quarterly and annual basis.

As you have read, the USPS states they have a liquidity problem, and as of the end of April, they had \$25 billion in available liquidity. That would mean that the USPS would probably not run out of cash soon. That is if it can keep package volume up long enough for volume and revenues from the other classes of mail to grow back slowly. The USPS reported a loss of \$1.201 billion for April versus a loss of \$338 million last year, as you see from the table above and the attached financials, a result that is worse by \$863 million. You get that by taking revenues less expenses for a net. If you take out workers' compensation costs, which are non-cash costs, what COVID-19 really cost the USPS was \$470 million. This is the net effect on the Finances of the USPS and why they say they have enough cash to see them through, but that is for April. If May gets worse and the packaging volume is not sustained, then we are in a tougher financial situation. The point is Treasury's comments that the USPS does not need a "bailout" align with the USPS's finances so far. However, they do need fundamental transformation to help with the non-cash costs and changes some of the frameworks of the business model they are operating under right now.

We have a balancing act between retaining package volume, growing back Marketing Mail, and not sending First-Class mail plummeting downward. Postmaster General DeJoy is going to need to be a very

talented leader if this will all come together. I do not see legislative transformation before next year at the earliest, so they have to make it until after the election.

Here is a table of these numbers in a different way that explains how we only have a \$470 million challenge instead of a \$1.201 billion challenge:

Data in Millions	April 2020	April 2019	Difference	Percentage	
Revenues	5,690	5,924	-234	3.9%	
Expenses	6,891	6,262	+629	10.1%	
Net	-1,201	-338	-863		
Expenses w/o Workers Comp	6,676	6,440	+236	+3.7%	Non-Cash Expense
Net w/o Workers Comp	-986	-516	-470		Non-Cash Expense

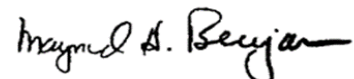
Therefore, the real loss from COVID-19 is \$470 million covered within current cash on hand. These are only estimates.

This means that the USPS will not shut down this fall unless something extraordinary happens and can wait for restructuring and a new financial plan that may come in the short term. I wish to thank Steve Kearney of the Alliance of Non-Profit Mailers for his great analytical mind in working through some of this analysis. Steve and I work closely together on postal matters.

Final Note

As I said at the beginning, we are now phasing out of the Wednesday Report. We will restart it if situations in the future dictate, but for now, you have read enough of these, and we will be placing additional information in the MIB, in special letters, and on our website. Thank you for your time and attention to these reports.

Kind Regards,



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