Analysis of Historical Mail Volume Trends

RISC REPORT

Report Number RISC-WP-24-008 | September 4, 2024

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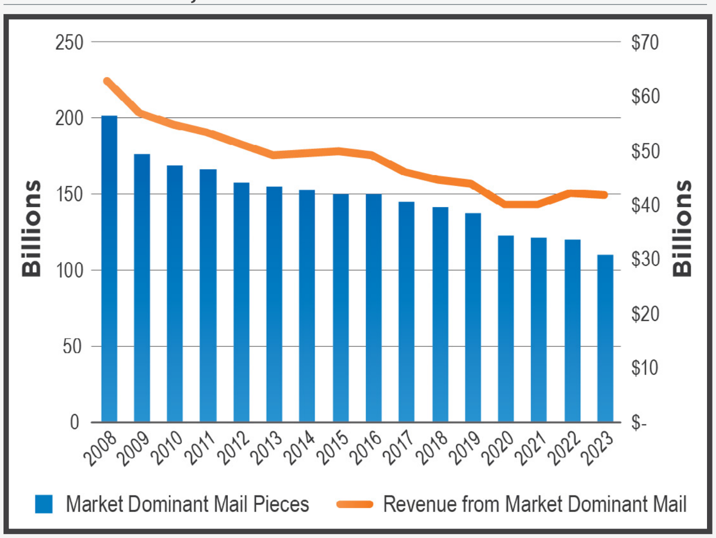
Executive Summary

Market Dominant mail – a category consisting primarily of First-Class Mail, Marketing Mail, and Periodicals – is the Postal Service's largest source of funding, contributing 53 percent of the agency's revenue in Fiscal Year (FY) 2023. Since 2006, however, mail volume has been in decline. Although package volume dramatically increased over the same period, the Postal Service's overall revenue growth slowed while expenses continued to rise. Consequently, the agency has struggled to cover the cost of providing universal mail service throughout the United States. The key factor driving ongoing decline in mail volume is "electronic diversion," a term referring to the replacement of physical mail with electronic alternatives, such as the Internet, email, texting, and social media.

This paper examines Market Dominant mail volume from FY 2008 through FY 2023. This period of 16 years captures data from the onset of the Great Recession in 2008 through September 2023. The paper's first objective is to present the Postal Service's historical mail volume trends across classes of mail. The second objective is to describe key factors influencing these volume trends.

Figure 1: Total Market Dominant Mail Volume and Revenue, FY 2008-2023



Source: OIG analysis of USPS annual Revenue, Pieces, and Weight reports.

Overall Market Dominant Mail Volume

The total volume of Market Dominant mail across all classes fell by 46 percent over the period of our analysis, from 201 billion pieces in FY 2008 to 109 billion in FY 2023. Volume fell every year, but 40 percent of the overall decrease occurred in two years that were affected by national economic downturns: FYs 2009 and 2020 (see Figure 1).

First-Class Mail

Volume of First-Class Mail, which includes letters, postcards, and large envelopes fell 50 percent between FY 2008 and FY 2023, from 92 billion pieces to 46 billion. Transactional mail (such as bill payments and statements) has experienced a more significant decline than correspondence mail (primarily greeting cards and letters to friends and relatives) as consumers and businesses have increasingly turned to electronic alternatives for billing and payment. From FY 2008 to FY 2023, there was a 52 percent decline in transactional mail sent and received by households versus 34 percent for correspondence mail, according to estimates from Postal Service survey data.

For correspondence mail, the primary cause of decline is the decrease in personal correspondence, along with reduced political correspondence and mail from non-profits. These categories of First-Class Mail are often easily substituted for by instantaneous electronic alternatives. First-Class Mail has also suffered from a sharp reduction in its use as an advertising channel.

Marketing Mail

Marketing Mail is the postal product most used for advertising and sales-related messages. Its volume decline has been less severe than First-Class Mail but is still significant. Marketing Mail volume decreased 40 percent, from 99 billion pieces in FY 2008 to 59 billion pieces in FY 2023, driven by customer diversion to lower-cost online alternatives. Along with declining volumes, there has been a drop in mail's share of total advertising spending.

Marketing Mail is also more sensitive to macroeconomic factors than First-Class Mail. During economic downturns, advertisers send less "prospecting" mail intended to connect with new customers. Inflation and high interest rates reduce the spending power of advertising budgets and increase print media production costs, pushing advertisers toward other channels. These same factors depress consumer demand, limiting the potential effectiveness of advertising mail. The Postal Service estimates that Marketing Mail is more sensitive to price increases than products in First-Class Mail and Periodicals.

Periodicals

Periodicals (newspapers, magazines, and other periodical publications) is unique among the major classes of mail in that it is "underwater," meaning the Postal Service spends more to process and deliver this class than it collects in revenue. Periodicals volume decreased from 8.6 billion pieces in 2008 to 3.0 billion pieces in 2023, a decline of 65 percent. The decline in Periodicals volume has been driven by electronic diversion away from subscriptions to hard-copy publications.

Impact of Mail Volume Trends on the Postal Service

The decline in Market Dominant mail volume discussed in this paper has fundamental effects on the Postal Service's financial health. Declining volume reduces mail density and therefore makes mail delivery increasingly less profitable per address served; as each delivery point becomes less profitable, the delivery network becomes more difficult to sustain. Similarly, stagnating revenue from Market Dominant products over much of this paper's period of analysis has made it more difficult for the Postal Service to fulfill its public service mission while remaining a self-funded entity.

The Postal Service was created in 1971 as an independent agency with a mandate to be self-financing. The agency generally funds its operations through revenue from its postal products and does not rely on regular government subsidies. Throughout the period of our analysis, it has run at an operating loss. The Postal Service has focused in recent years on the package market to increase revenue. Competitive product revenue – mainly packages – has increased significantly since FY 2008, rising by a greater amount than Market Dominant revenue has declined. Overall, however, the agency's revenue has not increased enough to keep pace with its increasing expenses.

In light of long-term financial losses, the Postal Service released the Delivering for America (DFA) 10-year plan in March 2021. The plan is intended to enable the Postal Service to operate in a financially self-sustaining manner by, among other initiatives, reorganizing the processing network, optimizing for package delivery, and utilizing pricing authorities granted by the Postal Regulatory Commission to raise Market Dominant prices above the rate of inflation. Market Dominant mail volume in FY 2022 and FY 2023 was higher than the Postal Service had forecasted in the DFA but still declined in these years, including by 9.2 percent in FY 2023. That decline, along with higher than anticipated expenses for processing and work hours, negatively impacted the agency's financials, including a $6.5 billion net loss in FY 2023.[1] While the DFA has had a strong focus on the package market, Market Dominant mail still contributed 53 percent of the Postal Service's revenue in FY 2023; future trends in mail volumes will have a critical impact on the agency's ability to restore its profitability going forward.

1 U.S. Postal Service Office of Inspector General (USPS OIG), *State of the U.S. Postal Service's Financial Condition*, Report Number 23-167-R24, June 21, 2024, https://www.uspsoig.gov/reports/audit-reports/state-us-postal-services-financial-condition.

Observations

Introduction

The volume of Market Dominant mail – a category consisting primarily of First-Class Mail, Marketing Mail, and Periodicals – is a vitally important statistic for the U.S. Postal Service.[2] While package volumes have increased in recent years, Market Dominant mail has been, and continues to be, the Postal Service's largest source of funding, contributing 53 percent of the agency's total revenue in Fiscal Year (FY) 2023. (For an explanation of Market Dominant mail, see Text Box 1.) Understanding mail volume trends and the factors driving these trends is essential for understanding the current state of the Postal Service and the context in which the agency and postal stakeholders must make strategic decisions about the future.

Historically, the Postal Service depended on growing mail volume to fund service to an increasing number of delivery points. In the 1980s and 1990s, volume grew as technological advances such as computerized data management made mail a more effective tool for advertising and financial transactions. Workshare discounts also made bulk mail more attractive to mailers.[3]

Text Box 1: Market Dominant Mail

Market Dominant mail includes mail products over which the Postal Service is considered to possess a postal monopoly. These products, unlike Competitive postal products, are subject to a price cap formula determined by the Postal Regulatory Commission (PRC). Three classes account for 99 percent of Market Dominant mail volume and 98 percent of Market Dominant revenue:

First-Class Mail: This class includes letters, postcards, and large envelopes. On average, it is delivered more quickly than other classes of Market Dominant Mail. First-Class accounts for around 42 percent of total Market Dominant mail volume.

Marketing Mail: Known until 2017 as Standard Mail, this class include flyers, circulars, advertisements, newsletters, bulletins, and catalogs. It is used by high-volume mailers and advertisers and accounts for around 54 percent of Market Dominant mail volume.

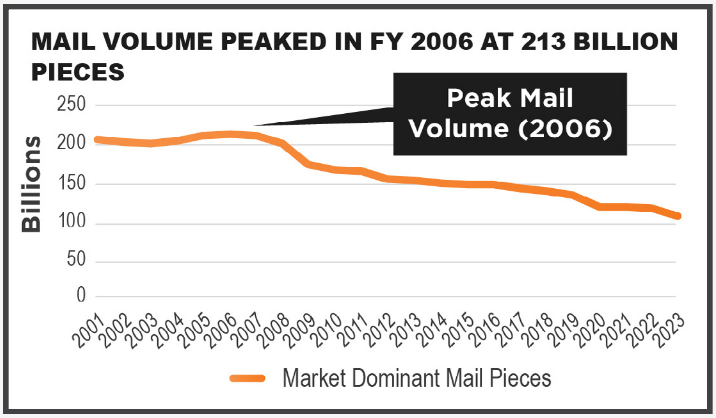
Periodicals: This class includes newspapers, magazines, and other periodical publications whose primary purpose is transmitting information to an established list of subscribers or requesters. It currently accounts for around 3 percent of Market Dominant mail volume.

Market Dominant mail also includes some package services (Alaska Bypass, Bound Printed Matter Flats and Parcels, and Media and Library Mail) and Free Mail. The paper will not discuss these products, which are relatively small in terms of volume and revenue.

2 The Postal Service officially refers to Marketing Mail as "USPS Marketing Mail." In this paper it is referred to as "Marketing Mail" for simplicity.
3 The Postal Service's workshare discounts are reduced postage rates offered to mailers for preparing, sorting, or transporting mail prior to its entry into the USPS network.

The situation began to change in the 21st century. The volume of First-Class Single Piece mail – such as stamped letters and postcards – began declining in the late 1990s. From FY 2001 through FY 2003, the Postal Service experienced the first consecutive years of declining total mail volume since the Great Depression. A strong economy in the mid-2000s, however, spurred a rebound in Standard Mail (now called Marketing Mail), which surpassed First-Class Mail volume for the first time in FY 2005 and led a recovery in overall Market Dominant mail. Total Market Dominant volume peaked in FY 2006 at 213 billion pieces (see Figure 2). This capped off four consecutive years in which the Postal Service's revenue exceeded its expenses.

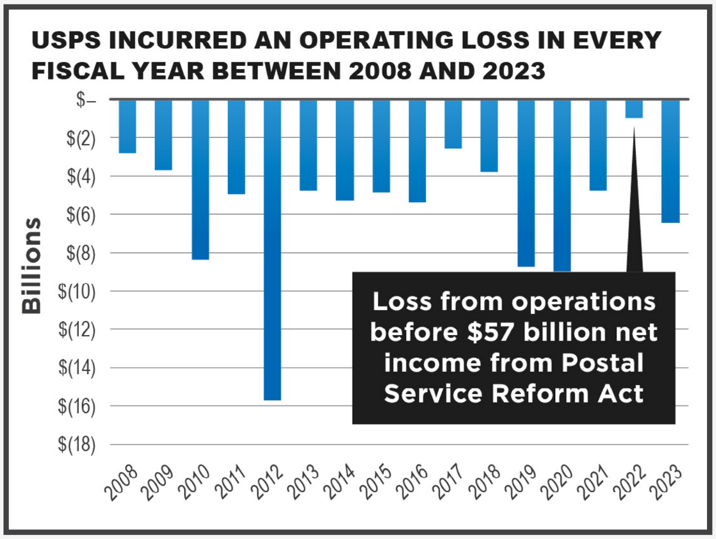
Figure 2: Total Market Dominant Mail Volume in the 21st Century



Source: OIG analysis of USPS annual Revenue, Pieces, and Weight reports.

Since 2006, mail volume has been in decline, slowing the Postal Service's revenue growth while expenses continue to rise. Declining volume and a steadily increasing number of delivery points have reduced mail density (defined as the volume of mailpieces divided by the number of delivery points), making it more costly to deliver each piece of mail. Overall Postal Service revenue increased only $5 billion between FY 2006 and FY 2023 (from $73 billion to $78 billion), while operating expenses rose $13 billion over the same period (from $72 billion to $85 billion). As a result, the agency has run an operating deficit every year since FY 2007 (see Figure 3).[4]

Figure 3: The Postal Service's Operating Losses, FY 2008-2023



Source: OIG analysis of USPS annual Form 10-K.

While technological innovation like computerized data management had helped increase mail volume in the late 20th century, it has come to have a more negative effect in the 21st. The key factor driving ongoing decline in mail volume is "electronic diversion," a term referring to the replacement of physical mail with electronic alternatives, such as the Internet, email, texting, and social media. Internet access has become nearly universal, now reaching 97 percent of households.[5] Macroeconomic factors and pricing of the Postal Service's mail products also have had an impact on mail volume.

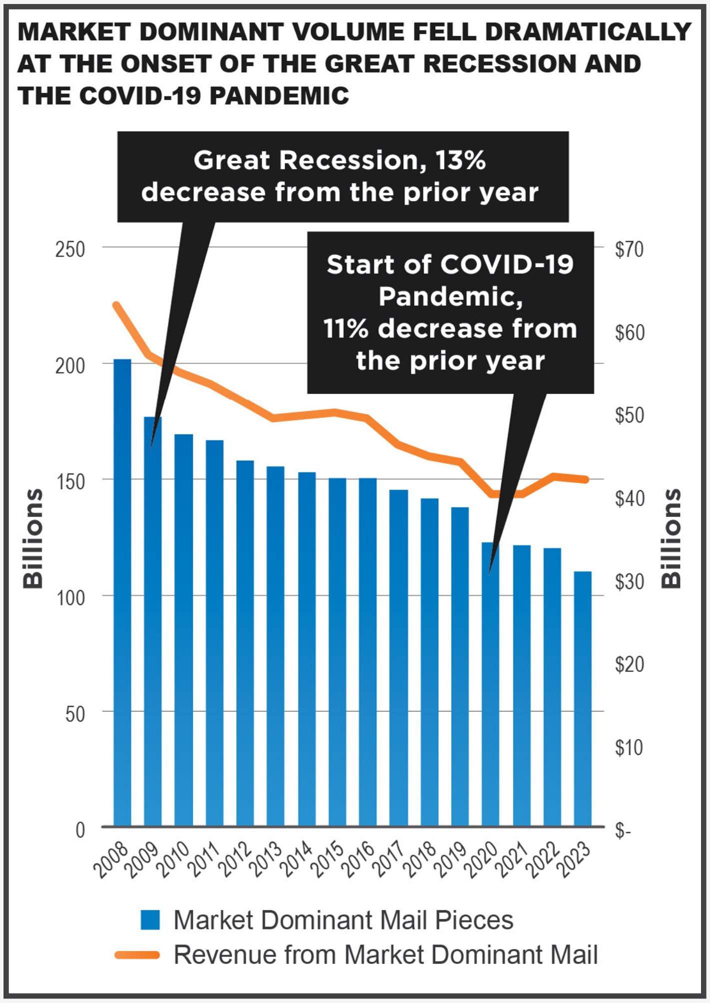
This paper examines mail volume from FY 2008 through FY 2023. FY 2008 is the first year in the analysis due to differences in how the Postal Service classified different mail products prior to that year that made an accurate comparison of class-level data with later years difficult. This period of 16 years captures data from the onset of the Great Recession in FY 2008 through September 2023. The paper's first objective is to present the Postal Service's historical mail volume trends across classes of mail. The second objective is to describe key factors influencing these volume trends. See Appendix A for more information on this project's objectives, scope, and methodology.

4 In FY 2022, the Postal Service reported a net positive income due to the impact of the Postal Service Reform Act of 2022, which reduced retirement health benefit obligations. This added $57 billion to the agency's annual reported income that year but did not represent a positive income from operations.
5 U.S. Postal Service, *The Household Diary Study: Mail Use & Attitudes FY 2023*, June 2024, https://prc.arkcase.com/portal/docket-search/advanced/filing-details/129457, p. 77.

Overall Market Dominant Mail Volume

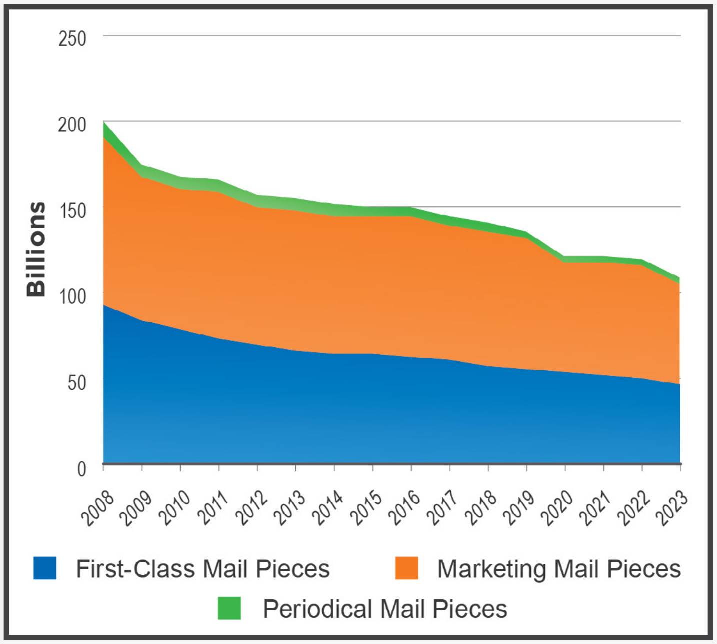
The total volume of Market Dominant mail across all classes fell by 46 percent over the period of our analysis, from 201 billion pieces in FY 2008 to 109 billion in FY 2023. See Figure 4 for total Market Dominant volume and revenue and Figure 5 for a breakdown by mail class. Volume fell every year, but over 40 percent of the overall decrease occurred in two years that were affected by economic downturns: 2009 (when volume fell by 25 billion pieces over the previous year) and 2020 (when volume fell by 15 billion pieces).

Figure 4: Total Market Dominant Mail Volume and Revenue, FY 2008-2023



Source: OIG analysis of USPS annual Revenue, Pieces, and Weight reports.

Figure 5: Market Dominant Mail Volume for Selected Classes, FY 2008-2023



Source: OIG analysis of USPS annual Revenue, Pieces, and Weight reports.

As volume declined, Market Dominant mail revenue fell 34 percent, from $63 billion in FY 2008 to $42 billion in FY 2023.[6] Market Dominant mail revenue declined in 13 of the 16 years of our analysis, and on average, revenue decreased 2.1 percent per year. Market Dominant mail revenues experienced slight year-over-year increases in FYs 2014, 2015, and 2022, in part because of higher prices. Since the Postal Accountability and Enhancement Act of 2006, Market Dominant products have been subject to a price cap linked directly to inflation. In FYs 2014 and 2015, however, the Postal Regulatory Commission (PRC) granted the Postal Service the authority to temporarily raise prices beyond the rate of inflation to help the agency recover from the Great Recession. In November 2020, the PRC granted additional pricing authorities above the rate of inflation, which the Postal Service first used in 2021. See Text Box 2 for a comparison of Market Dominant mail with growing volume and revenue from packages and other Competitive products.

6 The revenue reported here is revenue from Market Dominant mail only, and does not include Market Dominant services, such as Insurance, Collect on Delivery, PO Boxes, Money Orders, Certified Mail, or Registered Mail.

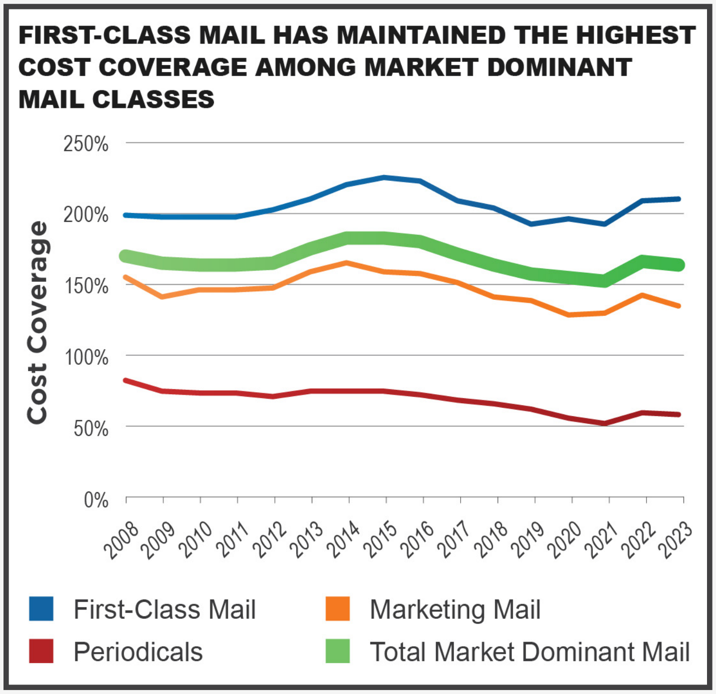
Text Box 2: Competitive Products and the Rise of Packages

Market Dominant volume and revenue trends can be contrasted with Competitive products, a category, consisting largely of packages, that has grown with the rise in e-commerce. Competitive volume grew more than 300 percent over the period of our analysis, from 1.6 billion pieces in FY 2008 to 6.7 billion in FY 2023. Total Competitive revenue (including packages, services, and other revenue) increased from $8.4 billion in FY 2008 to $33.5 billion in FY 2023, an increase of $25.1 billion. That was greater than the $20.8 billion decline in total Market Dominant revenue (including mail, services, and other revenue) over the same period.

Competitive package revenue has been able to substitute for lost mail revenue over the period of our analysis, but the Postal Service's expenses, including labor costs, have grown more than its total operating revenue over the past 15 years. Packages have not brought in enough money to keep the Postal Service from operating at a deficit and are more labor intensive to deliver than mail. The Postal Service's Delivering for America 10-year plan is largely premised on the continued growth of the U.S. parcel shipping sector as the key to USPS's success.

In total, revenue from Market Dominant mail covered its attributable costs from FY 2008 to FY 2023.[7] By class, First-Class Mail had the highest margins, bringing in at least twice its cost in most years of our period of analysis. In contrast, Periodicals were the only money-losing Market Dominant class, bringing in less revenue than their attributable costs for every year between FY 2008 and FY 2023. (See Figure 6.) As a class, Marketing Mail covered its attributable costs, but two products in that class, Marketing Mail Flats and Carrier Route Marketing Mail, lost money in FY 2023.

Figure 6: Cost Coverage for Market Dominant Mail



Source: OIG analysis of USPS annual Cost and Revenue Analysis reports.

First-Class Mail

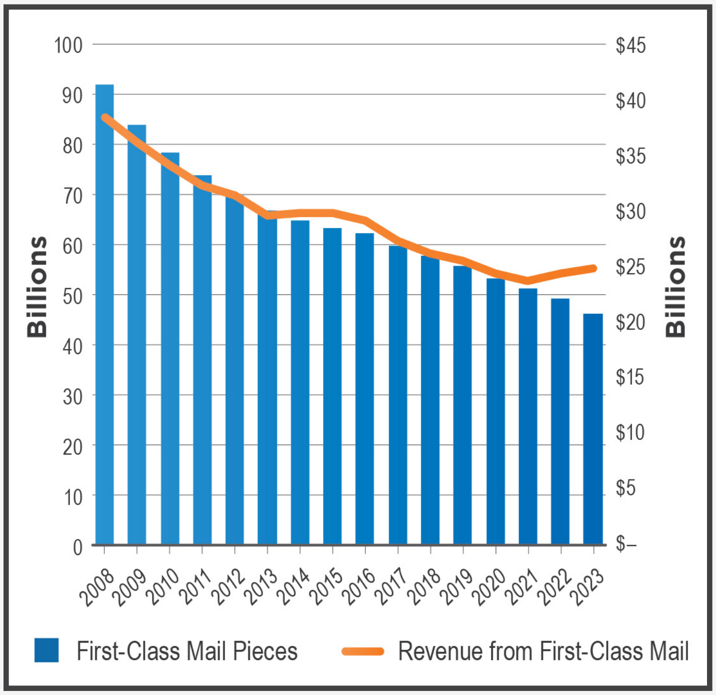
Volume of First-Class Mail, which includes letters, postcards, and large envelopes, has been declining since the 1990s. The decline has been most severe for single-piece First-Class Mail (for example, stamped letters and cards sent by individual consumers) as electronic diversion has reduced the use of mail for correspondence and transactions.

7 The Postal Service's definition of a product's attributable costs includes the sum of volume variable costs, product specific costs, and inframarginal costs calculated as part of the product's incremental costs. See: *U.S. Postal Service, Public Cost and Revenue Analysis Fiscal Year 2023*, February 22, 2024, https://about.usps.com/what/financials/cost-revenue-analysis-reports/fy2023.pdf.

Volume Trends for First-Class Mail

The total volume of First-Class Mail fell 50 percent between FY 2008 and FY 2023, from 92 billion pieces to 46 billion. (See Figure 7.) This was a slightly higher percentage than the 46 percent decline in overall Market Dominant mail volume. First-Class volume decreased every year during the period of our analysis, by an average of 3.1 percent per year.

Figure 7: First-Class Mail Volume and Revenue, FY 2008-2023



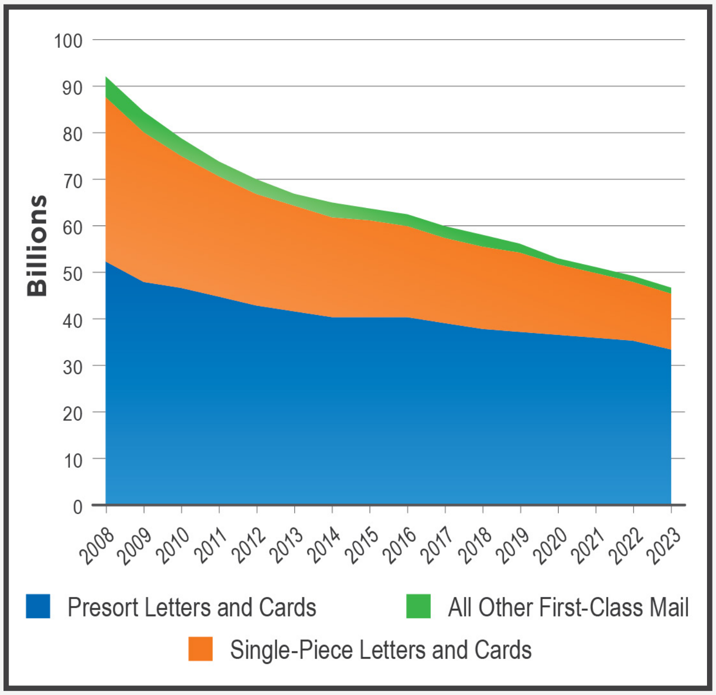
Source: OIG analysis of USPS annual Revenue, Pieces, and Weight reports.

Per piece, First-Class Mail is the most profitable mail class, generating a contribution of 28 cents per piece in FY 2023. However, total First-Class revenue has decreased along with volume.[8] There were slight revenue increases in FYs 2014, 2015, and 2022, which can be largely attributed to the additional rate authorities granted to the Postal Service during these years.

Within First-Class Mail, there are two primary categories: Presort and Single Piece. Presort is mail that has been sorted before entering the Postal Service network – this saves work for the Postal Service and therefore allows mailers a discounted rate. Presort is generally used by larger businesses and organizations, often for transactional mail. Single Piece is the smaller category in terms of volume and consists of individual mailpieces, for example stamped letters sent by an individual or small business.[9]

The different trends observed in these two categories illustrate changes in mailing behavior. Presort volume has been more resilient, decreasing only 36 percent during the period of our analysis and showing that larger organizations still use First-Class Mail for transactions and communication. Single Piece volume has decreased 67 percent over the same period, a much greater decline that demonstrates a move away from using First-Class Mail for individual correspondence. (See Figure 8.)

Figure 8: First-Class Mail Volume by Category, FY 2008-2023



Source: OIG analysis of USPS annual Revenue, Pieces, and Weight reports.

Key Factors Driving First-Class Mail Volume Trends

The main factor driving the decline in First-Class Mail volume is electronic diversion of transactional

8 In discussions with the OIG, the Postal Service noted that the recategorization of some First-Class Mail products from Market Dominant to Competitive during the period of our analysis also contributed to the decrease in First-Class Mail revenue and volume.
9 First-Class Mail also includes First-Class Flats, First Class Mail International, and Inbound Letter Post, but these products are relatively small in volume and revenue and are not a focus of this paper.

and correspondence mail. Volume is also affected by advertisers turning away from this class of mail. Economic factors and product pricing appear to have had relatively little impact on First-Class Mail volume. For FY 2023, the Postal Service estimated from survey data that 46 percent of First-Class Mail received by households was transactional mail, 40 percent was correspondence, and 10 percent was advertising. The agency estimated that 50 percent of mail sent by households was correspondence and 45 percent was transactional.[10]

Electronic Diversion of Transactional Mail

Consumers and businesses are increasingly turning to electronic alternatives for billing and payment, attracted by the convenience, ease of use, and lower costs of these options. Businesses are sending fewer invoices, statements, and other transactional documents through the mail as web-based options become the norm. This shift is enabled by the spread of broadband and smartphone access in the U.S. According to Pew Research, the number of U.S. adults reporting access to home broadband jumped from 55 percent in 2008 to 80 percent in 2023. Smartphone access – barely a reality in 2008 – spread to 35 percent of adults in 2011 and 90 percent in 2023, becoming more prevalent than home broadband.[11]

According to the Postal Service's Household Diary Study, the number of bill payments sent and received by mail dropped from 1.6 to 0.3 per week between FYs 2008 and 2023.

A valuable resource for understanding changes in mail usage is the Postal Service's annual Household Diary Survey, which gathers data on mail sent and received from a target sample of at least 5,200 households per year.[12] (This survey data includes only mail sent and received by households and does not measure mail received by businesses or other non-household entities.) For example, participating households are asked questions about each First-Class mail piece they receive that allows the Postal Service to classify their First-Class Mail as "correspondence," "transaction," or "advertising." This is a useful differentiation of the primary purposes of First-Class Mail. Correspondence mail consists of non-sales-related communications, such as letters, greeting cards, and communication with businesses or government not focused on a transaction, while transactional mail consists of communication related to financial transactions, such as billing and payment.

Household Diary Survey data demonstrate how electronic diversion has changed the way people and businesses conduct financial transactions. Transactional mail has experienced a more significant volume decline than correspondence mail. The estimated volume of transaction First-Class Mail sent and received by households fell 52 percent between FY 2008 and FY 2023, from 35.3 billion to 17.0 billion. That decline has been steady, with every year showing lower volume than the previous year.

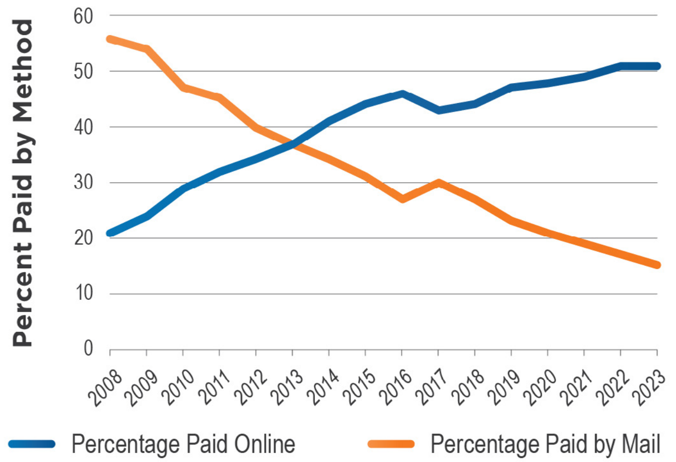
Bill payment is an especially notable area of electronic diversion. Billing started migrating to the Internet in the early 2000's. Households were initially reluctant to switch to electronic bills and statements due to concerns about maintaining hard copy records, along with security and privacy risks associated with electronic transactions. As those concerns eased over time, billing by mail steadily declined. In FY 2008, the Household Diary Study reported that 21 percent of household bills were paid by Internet. In FY 2023, that figure had increased to 51 percent. (See Figure 9.) Per household, the number of bills and bill payments sent and received by mail fell from 4.7 per week in FY 2008 to 1.6 in FY 2023; this was the largest volume decline in any First-Class Mail category during the period of our analysis. In total, the number of bill payments sent fell from 7.0 billion in FY 2008 to 1.8 billion in FY 2023, representing the disappearance of 5.2 billion mailpieces from the postal network.

10 U.S. Postal Service, *The Household Diary Study: Mail Use and Attitudes in FY 2023*, May 2024, https://prc.arkcase.com/portal/docket-search/advanced/filing-details/129457, pp. 69 and 71.
11 Pew Research, "Internet, Broadband Fact Sheet," January 31, 2024, https://www.pewresearch.org/internet/fact-sheet/internet-broadband/ and Pew Research, "Most U.S. adults have a smartphone, home broadband," January 24, 2024, https://www.pewresearch.org/internet/2024/01/31/americans-use-of-mobile-technology-and-home-broadband/pi_2024-01-24_mobile-broadband_0-01-png/.
12 The actual number of retrieved surveys in given year may be lower than the target, as was the case in FY 2023.

Figure 9: Monthly Average Household Bill Payment by Method, FY 2008-2023

BILL PAYMENT VIA MAIL HAS DECLINED DRAMATICALLY

Over the 15 years of this analysis, the percentage of bills paid by mail versus online essentially switched. In FY 2023, the majority of bills were paid online.



Source: OIG analysis of USPS Household Diary Survey data, FYs 2008-2023.
Note: Percentages add up to less than 100 percent due to four other options of payment not included in this figure: automatic deduction, credit card, telephone, and in-person.

Large organizations that have historically sent high volumes of transactional mail made decisions that contributed to the broader shift toward electronic alternatives. In 2011, for example, the U.S. Department of Treasury announced that new applicants for Social Security, Veteran's Affairs, and other federal benefits had to choose an electronic payment method (such as direct deposit or debit cards) and could not opt for paper checks; in 2013, existing benefit recipients – even those who had been receiving paper checks – were legally required to follow suit, with limited exceptions. Banks and businesses have also been shifting to electronic statements and billing, providing incentives for customers to go online or making hard copy mail only available for a fee.

There are notable age differences in transactional mail usage. Younger people send and receive far less transactional mail than older people. To a certain extent, this reflects the fact that younger people tend to have lower incomes, fewer credit and financial accounts, and are less likely to be homeowners.[13]

Household Diary Survey data demonstrate that while all age ranges exhibited a decline in the use of transactional mail, younger households (defined by the age of the reported head of household) have experienced a greater percentage decline in transactional mail volume than older households. Younger households have also been more inclined to use electronic bill payment throughout the period of our analysis. Households headed by someone under age 35 essentially stopped sending transactional mail during the period of analysis; they sent an average of 1.0 pieces of transaction mail per week in FY 2008, but the FY 2023 Household Diary Study reported an average of 0.0 pieces sent.

Electronic Diversion of Correspondence Mail

After reaching a peak in 2002, correspondence First-Class Mail has seen a continuous decline coinciding with the pervasiveness of electronic communication media. The primary cause of this decline is the decrease in personal correspondence such as greeting cards and letters to friends and relatives, along with reduced political correspondence and mail from non-profits. These categories of First-Class Mail are often easily substituted for by instantaneous electronic alternatives such as email, text messages, and social media, which are generally low-cost or free.

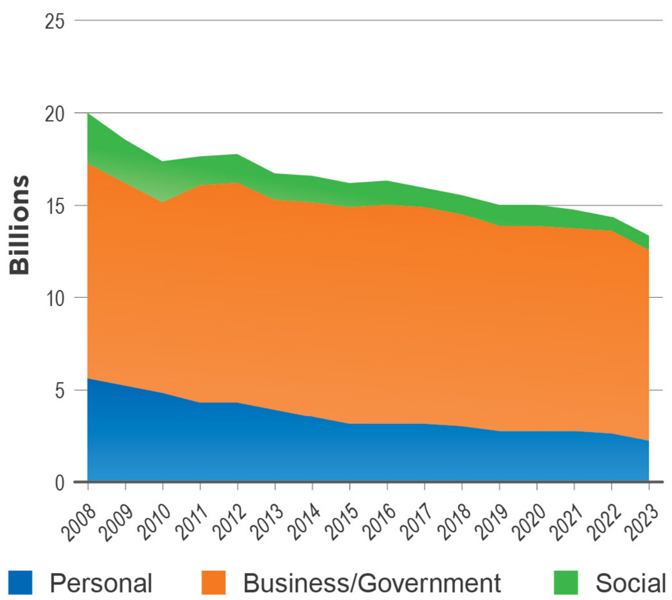
This diversion led the estimated volume of correspondence mail sent and received by households to decrease 34 percent between FY 2008 and FY 2023, from 20.1 billion pieces to 13.4 billion. Within that category, personal correspondence (as opposed to communication from organizations) fell by 3.3 billion pieces (59 percent). The volume of greeting cards – the largest category of personal correspondence – dropped 54 percent from 3.7 pieces billion sent and received in FY 2008 to 1.7 billion in FY 2023. The other major drop in correspondence mail can be seen in what the Postal Service categorizes as "social," a category consisting mainly of political and non-profit correspondence, which fell 72 percent during this period, from 2.8 billion pieces sent and received to only 800 million. (See Figure 10.)

13 USPS OIG, *Transactional Mail: Implications for the Postal Service,* Report Number RARC-WP-18-007, April 16, 2018, Transactional Mail: Implications for the Postal Service | Office of Inspector General OIG (uspsoig.gov), p. 8.

Figure 10: Correspondence Mail Sent and Received by Households, FY 2008-2023

BUSINESS AND GOVERNMENT CORRESPONDENCE HAS BEEN RESILIENT

Estimated volume of First-Class correspondence mail from businesses and government was resilient over the period of analysis, declining by a smaller percentage (12 percent) than correspondence mail as a whole (34 percent). In contrast, personal correspondence and social correspondence (a category including political and non-profit mail) both declined much more dramatically (59 percent and 72 percent, respectively).



Source: OIG analysis of USPS Household Diary Survey data, FYs 2008-2023.

While personal correspondence and political and non-profit mail have declined, business and government correspondence appear somewhat more resilient to electronic diversion. Estimated volume for this type of mail fell by a smaller percentage over the period of our analysis, dropping 12 percent from 11.7 billion pieces sent and received by households in FY 2008 to a low of 10.3 billion in FY 2023. The decline has not been steady, as volume actually increased between FY 2010 and FY 2016, when it hit a high of 12.0 billion. The items in this category include notices and announcements from businesses and government entities, tax-related documents and information, and insurance mailings. The stability in this category reflects a faster migration of personal correspondence to electronic alternatives compared to business and government correspondence. Businesses and government entities are often subject to legal, security, or other business protocols that require them to communicate certain information by mail. (This contrasts with the widespread move away from paper checks and bill payments that has negatively impacted transactional mail.)

Younger households sent less correspondence mail than older households throughout the period of our analysis, but volumes for all age groups decreased. Households headed by someone under age 34 sent an average of 0.9 pieces of correspondence mail per week in FY 2008 but only 0.2 in FY 2023. Households headed by someone over 55 sent 1.6 pieces in FY 2008 and 0.6 in FY 2023.

Advertisers Turning Away from First-Class Mail

First-Class Mail has suffered from a sharp reduction in its use as an advertising channel. In FY 2008, households received an estimated 8.3 billion pieces of advertising sent via First-Class Mail. In FY 2023, households received 3.2 billion pieces, a 61 percent decrease.[14] First-Class Mail advertising volume fell by a greater percentage than Marketing Mail (the most common means of sending advertising mail) over the period of our analysis.

The most notable drop in First-Class Mail advertising occurred during the Great Recession and was due in part to a steep decline in advertising mail sent by the financial industry, which had been the biggest sender of advertising First-Class Mail in FY 2008, when it accounted for 35 percent of the total. Financial companies tend to send less mail, for example credit card solicitations, during periods when consumers face economic constraints, and the Great Recession had a strong negative effect on the financial industry. Notably, however, the volume of First-Class advertising mail from the financial sector did not recover in the following years as the economy improved. The two other largest sectors sending advertising mail, merchants and services, also reduced their use of First-Class Mail.

14 The First-Class Mail advertising volumes cited here do not include secondary advertising, in which an advertisement is included along with a mailing that is not primarily an advertisement.

The perceived value of First-Class Mail as an advertising tool appears to have decreased during the period of our analysis. For many advertisers planning a direct mail campaign, the advantages of First-Class Mail may not justify the cost. The biggest advantage of First-Class Mail over Marketing Mail is its speed and reliability. Service standards for First-Class Mail range between one and five days, depending on distance, while Marketing Mail can take more than five days to reach its destination. First-Class Mail also has delivery and processing priority over Marketing Mail and therefore is less subject to delays, which can be especially important during periods of peak volume. First-Class Mail can be more customized for the recipient, as the Postal Service places limits on personal information that can be included in Marketing Mail. First-Class Mail may be forwarded if the recipient submits a change of address when moving or temporarily relocating, while Marketing Mail is generally not forwarded unless the sender pays additional postage. These advantages come at a cost, however. As of July 2024, Commercial First-Class Mail letter rates start at $0.545 per piece, depending on the level of presorting before they are entered into the postal network. Marketing Mail commercial rates are much lower – as little as $0.210 per piece.

Following the Great Recession, mailers likely became more cost-conscious and shifted advertising volumes to less expensive Marketing Mail (then called Standard Mail) or other advertising channels. Direct mail's share of total advertising sending has been declining as cheaper electronic alternatives proliferate; with less money to spend on mail campaigns, advertisers are more sensitive to the higher cost of First-Class Mail.

Limited Effects of Macroeconomic Factors

Since FY 2008, overall First-Class Mail volume has not shown a strong correlation with economic indicators but does appear to have been somewhat impacted by the effects of the Great Recession, such as reductions in credit card, mortgage, and home equity loan solicitations resulting from declines in home ownership and consumers' decreased use of credit cards. For insight on how the economy might be affecting mail volumes, we can look to the Postal Service's annual econometric demand equations, which estimate the effects that different variables had on mail volumes over a five-year period. It is impossible to exactly quantify the impact of these factors, but these estimates can be informative. The Postal Service's econometric demand equations suggest that the Great Recession had a notable impact on First-Class Mail volume, the COVID-19 pandemic had a less significant impact, and employment (as an indicator representing overall macroeconomic factors) had little to no impact.

According to the Postal Service's estimates, a variable that the agency primarily attributed to the Great Recession had a significant negative impact on First-Class Mail volume from FY 2008 through FY 2013. This variable drove down single-piece volume by about 23 percent and workshared volume by 21 percent over that five-year period – in both cases a greater effect than variables associated with electronic diversion.[15]

The other notable economic downturn during this time, the COVID-19 pandemic, had a less obvious impact on First-Class Mail volume in the Postal Service's estimates for the five-year period from FY 2019 through FY 2023. For First-Class single-piece stamped letters, a variable representing the time of the pandemic was only included as one of several variables that together accounted for 16 percent of that product's total volume decline in that period. The Postal Service did not include any variable representing the pandemic in its estimates for First-Class workshared letters. For First-Class single-piece metered letters (letters sent using postage meters instead of stamps, a product commonly used by small – and medium-sized businesses) a variable representing the time of the pandemic was estimated to account for about 28 percent of the total volume decline in that product, again much smaller that the variable representing electronic diversion. While these estimated variables do not definitively state the extent that this downturn had

15 The Postal Service does not model electronic diversion with explicit Internet variables, but instead measures diversion through a series of linear time trends which start at various times within the sample periods over which the demand equations are estimated.

on First-Class Mail demand, they suggest that the impact of COVID-19 is at least less obvious and likely of a lower magnitude than the Great Recession.

Throughout the period of our analysis, the Postal Service has included a variable based on private employment in its econometric demand estimates. A decrease in private employment between FY 2008 and FY 2012 was estimated to have a negative effect on both single-piece and workshared (presorted) First-Class Mail. For the last five years of our analysis, FYs 2019 through 2023, the Postal Service estimated that rising employment had a slight positive effect on volumes for single-piece and workshared First-Class Mail. In both of these five-year periods, however, the effects of this macroeconomic factor were estimated to be much lower than the effects of electronic diversion.[16]

Postal Pricing

The Postal Service estimates the effects of pricing in its econometric demand equations. Throughout the period of our analysis, the Postal Service has estimated the effect of price increases on First-Class Mail demand to be relatively low, especially when compared with variables related to electronic diversion. While rising real prices have had a negative effect on volume, the Postal Service calculates that demand for First-Class Mail products is relatively "inelastic," meaning that raising the price by one percent would decrease demand by less than one percent. The impact of postal pricing on demand for products is controversial among some postal stakeholders.[17]

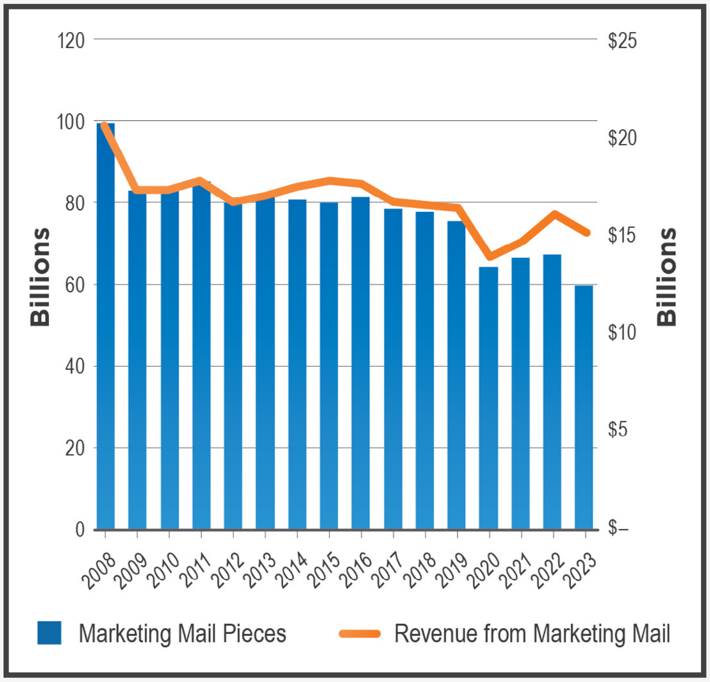
Marketing Mail

Marketing Mail (formerly known as Standard Mail) is the postal product most used for advertising. Its decline since FY 2008 has been less severe than First-Class Mail but is still significant. Electronic diversion has greatly affected this class of mail, as the growing prevalence of alternative advertising channels decreased spending on direct mail marketing.

Volume Trends for Marketing Mail

Marketing Mail volume decreased 40 percent, from 99 billion pieces in FY 2008 to 59 billion pieces in FY 2023. This was a slightly lower decline than the 46 percent experienced in overall mail volume. Most of the volume decline for this class of mail occurred in fiscal years 2009, 2020, and 2023. Volume fell 17 percent in FY 2009, 15 percent in FY 2020, and 11 percent in FY 2023. Some years showed slight volume increases over the previous year. (See Figure 11.)

Figure 11: Marketing Mail Volume and Revenue, FY 2008-2023



Source: OIG analysis of USPS annual Revenue, Pieces, and Weight reports.

Per piece, Marketing Mail is profitable, but less so than First-Class Mail. In FY 2023, the Postal Service gained about seven cents more in postage than attributable costs per piece of Marketing Mail. Revenue per piece increased between FY 2008 and FY 2023, but declining volume led to a 27 percent revenue decrease for this class, from $20.6 billion in FY 2008 to $15.1 billion in FY 2023. Marketing Mail flats stand out as the product in this class that has a significantly negative contribution, meaning attributable cost exceeds

16 For First-Class Single-Piece Letters, Cards, and Flats, falling employment was estimated to have an effect on volume equal to a decrease of 4.7 percent for 2008 through 2013, while the total actual decrease in volume over that time was 37.2 percent.

17 An analysis funded by groups representing the mailing industry critiqued the Postal Service's elasticity estimate methodology and questioned the utility of these estimates in accurately forecasting mail volume. See: Nam D. Pham et al, *Critique of USPS Elasticities*, NDP Analytics, March 2024, https://ndpanalytics.com/wp-content/uploads/PostCom-GCA-Report-March-2024-Final.pdf.

the revenue the Postal Service receives in postage. This relates to the high costs of processing flats at postal facilities. (In FY 2023, Marketing Mail presorted to individual carrier routes also had a slightly negative contribution.)

> Direct mail's share of total ad spending was relatively stable at around 11 or 12 percent. But after 2015 this began to drop, reaching around four percent in 2023.

Key Factors Driving Marketing Mail Volume Trends

As with Market Dominant mail overall, electronic diversion of advertising mail had the biggest impact on Marketing Mail volume. This class is also more sensitive than First-Class Mail to macroeconomic pressures and shocks. According to the Postal Service's estimates, pricing has a limited impact on Marketing Mail volume, although this class is more sensitive to price changes than First-Class Mail; some mailers' groups believe pricing has had a more significant impact than estimated by the Postal Service.

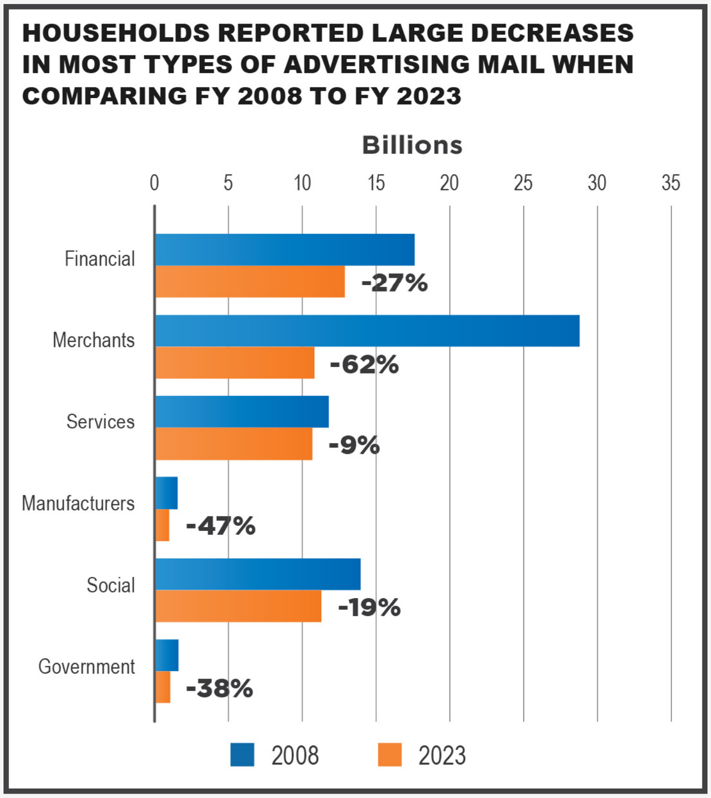
Electronic Diversion of Advertising Mail

Per recipient, Internet advertising channels like paid search, social media, and email are often lower in cost and easier to set up than mail campaigns, can provide detailed analytics, and may have a higher return on investment than direct mail, depending on the specific campaign. Unsurprisingly, marketers have increasingly used digital channels, leading to a drop in mail's share of total advertising spending. According to Postal Service calculations, direct mail's share of total advertising has fallen over the past decade, from more than 8 percent in 2013 to around four percent in 2023.[18]

According to the market research firm Winterberry Group, direct mail was the fifth largest advertising channel in the U.S. in 2023. That year, advertisers spent an estimated $98.4 billion on search advertising, $69.1 billion on social media advertising, $55.7 billion on linear television, and $50.8 billion on online display ads (such as a banner ad on a website). In comparison, direct mail received $37.6 billion in spending. A related factor affecting Marketing Mail volume is the fact that improved data analytics has allowed marketers to tailor their campaigns to a smaller number of recipients – ad campaigns may therefore require fewer mailpieces to reach the desired number of interested consumers.

Looking at categories of senders, merchants (businesses selling products to consumers) appear to have directed their advertising away from mail to a much greater extent than other sectors. In FY 2008, merchants were the biggest users of Marketing Mail, sending an estimated 28.7 billion pieces per year, according to the Household Diary Survey. By FY 2023, merchants had fallen to third place (behind the financial sector and the non-profit and political category), dropping to 10.8 billion pieces, a decline of 62 percent. The reduction in merchants' Marketing Mail was equal to 57 percent of the total decline for this mail class. (See Figure 12.)

Figure 12: Estimated Pieces of Marketing Mail Advertising by Sender Type, FY 2008 and 2023



Source: OIG analysis of USPS Household Diary Study data.

18 U. S. Postal Service, *The Household Diary Study: Mail Use and Attitudes in FY 2023*, May, 2024, https://prc.arkcase.com/portal/docket-search/advanced/filing-details/129457, p. 43.

In other sectors, the decline has been more gradual, demonstrating that marketers still find value in Marketing Mail products. The financial sector's Marketing Mail volume dropped an estimated 27 percent over the same period, from 17.5 billion pieces to 12.8 billion. Social (non-profit and political) Marketing Mail fell from 13.9 billion to 11.3 billion pieces, a 19 percent decline. Services, the fourth largest category, fell from 11.6 billion pieces to 10.6 billion pieces, a 9 percent decline.

In recent years, the Postal Service's econometric demand analysis has attempted to capture the effect of digital diversion on Marketing Mail volume. To represent this factor, the agency estimated a linear time trend with a downward pressure on Marketing Mail commercial letters (the largest category in this class) equal to a drop in volume of 14 percent for the period of FYs 2018-2023.[19] Total marketing mail volume decreased 23 percent from FY 2018 to FY 2023. The Postal Service stated that this variable "likely reflects shifts by advertisers from direct mail to digital advertising."[20]

Sensitivity to Macroeconomic Pressures and Shocks

Marketing Mail is more sensitive to macroeconomic factors than First-Class Mail. During economic downturns, many businesses focus more on existing customers and send less "prospecting" mail intended to connect with new customers. The volume of credit card solicitations is an example of this, as it has been particularly sensitive to economic factors.

High inflation and interest rates also affect Marketing Mail volume. Inflation reduces the spending power of advertising budgets and causes print media production costs to increase, pushing advertisers toward other channels. High prices and borrowing costs depress consumer demand, limiting the potential effectiveness of advertising in influencing people to make a purchase. In addition, marketing executives reported that inflationary pressures led them to cut advertising budgets, according to the Postal Service's 2023 Annual Compliance Report.[21]

In its econometric demand analysis, the Postal Service uses real gross private domestic investment as a measure of overall business investment. During years when this measure declined, such as from FY 2008 through FY 2012, there was an estimated negative effect on volume. In FYs 2018 through 2023, business investment increased and this variable had a positive estimated effect on Marketing Mail letter volume. Throughout the period of our analysis, however, the effect of investment – positive or negative – on volume was much smaller than the negative estimated effect of variables likely related to electronic diversion.

The two major economic shocks during our period of analysis – the Great Recession and the COVID-19 pandemic – also had negative effects on Marketing Mail volume. The Great Recession caused Marketing Mail (then Standard Mail) volume to plummet in 2008 and 2009. A major factor was the financial sector reducing its advertising mail volume by nearly 30 percent; nearly a decade of advertising mail volume growth essentially disappeared during this downturn. But unlike the previous recession in 2001, this downturn was not followed by a robust recovery. The 2020 pandemic also had a negative effect on Marketing Mail, as evidenced by the significant drop in volume during that fiscal year and the failure of this class to rebound to pre-pandemic levels in the following years.

The drop in Marketing Mail in FY 2023, though not tied to a specific economic downturn, may still be related to concerns about the economy. The Postal Service stated that recent fears of a recession may have negatively influenced Marketing Mail demand by deterring both business and consumer spending.

19 The Postal Service models demand for Political and Election Mail separately from other Marketing Mail and makes an additional distinction between Commercial versus Nonprofit Mail within both of these categories. See: U.S. Postal Service, *Narrative Explanation of Econometric Demand Equations for Market Dominant Products Filed with Postal Regulatory Commission on January 22, 2024*, July 1, 2024, https://prc.arkcase.com/portal/docket-search/advanced/filing-details/129499, p.46.

20 U.S. Postal Service, *Narrative Explanation of Econometric Demand Equations for Market Dominant Products Filed with Postal Regulatory Commission on January 20, 2023*, July 3, 2023, https://prc.arkcase.com/portal/docket-search/advanced/filing-details/125546, p.43.

21 U.S. Postal Service, *FY 2023 Annual Compliance Report*, December 29, 2023, https://prc.arkcase.com/portal/docket-search/advanced/filing-details/127620, p. 2.

Some major Marketing Mail users also declared bankruptcy in 2023 and ceased mailing.

Influence of Pricing

Marketing Mail volume appears to be more sensitive to price changes than other postal products, although the Postal Service calculates that demand for Marketing Mail products is relatively "inelastic," meaning that raising the price by one percent would decrease demand by less than one percent.[22] According to the Postal Service's econometric demand equations, the estimated effect of price changes is limited compared to the effect of digital diversion. For example, for the period from FY 2019 through FY 2023, the Postal Service's inflation-adjusted price index for commercial Marketing Mail letters increased 1.2 percent and this estimated price increase decreased volume by 0.8 percent.[23] This is much smaller than the impact of a time trend variable that USPS attributes to electronic diversion – this had an estimated negative effect on volume equal to a decrease of 14 percent over the same period.

While there has been some fluctuation in the Postal Service's estimates of price elasticity for Marketing Mail between FY 2008 and FY 2023, Marketing Mail products do not show a definitive trend in sensitivity of volume to price changes. Its equations for the period from FY 2019 through FY 2023 estimate that a one percent price increase for Marketing Mail commercial letters would decrease volume by 0.65 percent.[24] This is a greater effect than estimated for the period from FY 2008 through FY 2012, when a one percent price increase would decrease volume by an estimated 0.46 percent. However, there is fluctuation in the elasticity estimates from year to year and it is not clear that this represents an actual change in price sensitivity.[25]

Some mailers and related trade organizations have criticized USPS elasticity models and argued that rate increases above inflation authorized by the PRC since 2021 have been a factor in driving down volume. The Postal Service has begun raising rates twice a year, as opposed to only once, as had been the case in most years prior to 2021. Mailers are concerned that more frequent rate changes could make it more difficult to plan and budget for direct mail campaigns.

Periodicals

Periodicals (newspapers, magazines, and other periodical publications) is unique among the major classes of mail in that it is "underwater," meaning the Postal Service spends more to process and deliver it than it collects in revenue.[26] The volume of periodicals has steadily declined as fewer people subscribe to hard-copy publications. This class appears to be more sensitive to electronic diversion than First-Class Mail and Marketing Mail.

Volume Trends for Periodicals

Periodicals volume decreased from 8.6 billion pieces in 2008 to 3.0 billion pieces in 2023, a decline of 65 percent. Although Periodicals was already a much smaller class of mail by volume than First-Class Mail or Standard Mail in FY 2008, it subsequently experienced a far higher percentage of decline than the 46 percent experienced in overall mail volume. Volume for this class declined every year in our period of analysis. (See Figure 13.) Historically, Periodicals volume per person was highest in 1971,

22 In its econometric demand equations, the Postal Service uses different equations to estimate demand for Political and Election Mail versus all other Marketing Mail. It also estimates demand for non-profit mail separately from commercial mail. see: U.S. Postal Service, *Narrative Explanation of Econometric Demand Equations for Market Dominant Products Filed with Postal Regulatory Commission on January 22, 2024*, July 1, 2024, https://prc.arkcase.com/portal/docket-search/advanced/filing-details/129499, p. 45.

23 In its econometric demand equations, the Postal Service uses chain-weighted price indices that compare each period with the proceeding one such that the weight and price reference periods are moved forward each period. The postal prices entered into these demand equations are calculated as weighted averages of the various rates within each particular category of mail. For more on this methodology, see: U.S. Postal Service, *Narrative Explanation of Econometric Demand Equations for Market Dominant Products Filed with Postal Regulatory Commission on January 22, 2024*, July 1, 2024, https://prc.arkcase.com/portal/docket-search/advanced/filing-details/129499, pp. 3-5.

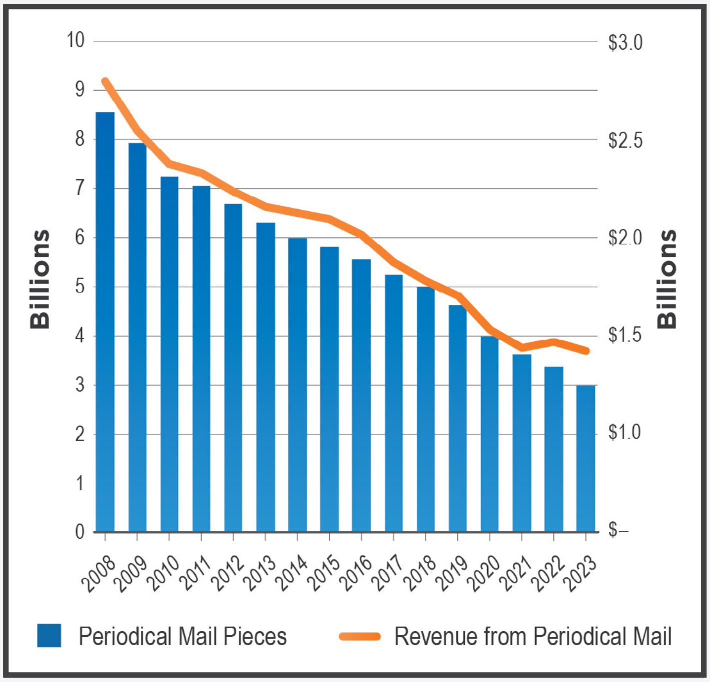
24 Marketing Mail commercial letters is a grouping of Marketing Mail letter products not including high-density and saturation letters, nonprofit, or political and election mail. This grouping is used in the Postal Service's econometric demand equations.

25 For example, in 2021, the Postal Service estimated the price elasticity over the previous five years to be -0.540. In 2022, the estimate was -0.527. In 2023, the estimate was -0.455. In 2024, the estimate was -0.647.

26 Periodicals mailers have argued that magazines and newspapers increase readership and engagement with the mail overall, and that the loss of Periodicals volume diminishes the value of other types of mail.

the first year of the Postal Service's existence as an independent agency.

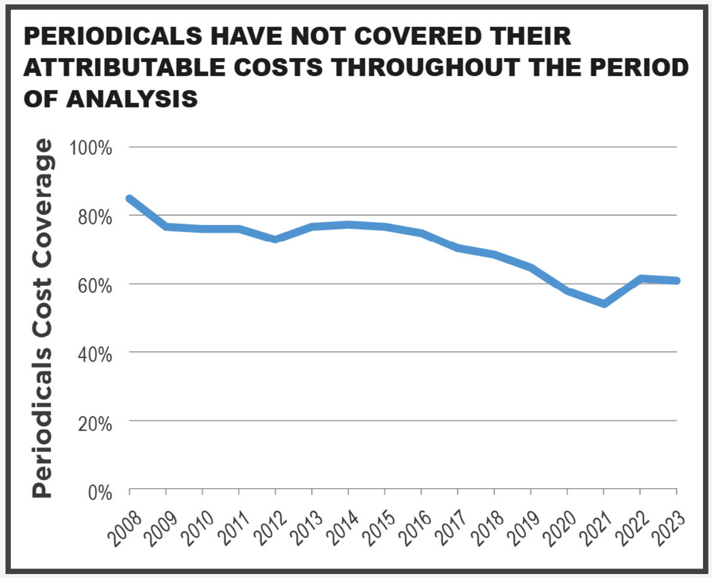
Figure 13: Periodicals Volume and Revenue, FY 2008-2023



Source: OIG Analysis of USPS annual Revenue, Pieces, and Weight reports.

Revenue from Periodicals decreased from $2.3 billion in 2008 to $0.9 billion in 2023, a decline of 60 percent. Periodicals lose money for the Postal Service because attributable costs exceed the revenue the agency takes in for delivering this mail class. This is primarily because Periodicals are mostly flats, which are expensive to process relative to postage rates. This situation has only grown worse over the period of our analysis. In FY 2008, Periodicals covered 84 percent of their costs. In FY 2023, that dropped to 60 percent, with USPS essentially losing 21 cents per Periodical delivered.[27] (See Figure 14.)

Figure 14: Periodicals Cost Coverage, FY 2008-2023



Source: OIG Analysis of USPS annual Cost and Revenue Analysis reports.

Key Factors Driving Periodicals Volume Trends

The decline in Periodicals volume has been driven by electronic diversion creating a decline in hard-copy subscriptions to magazines and newspapers.

Electronic Diversion of Periodicals

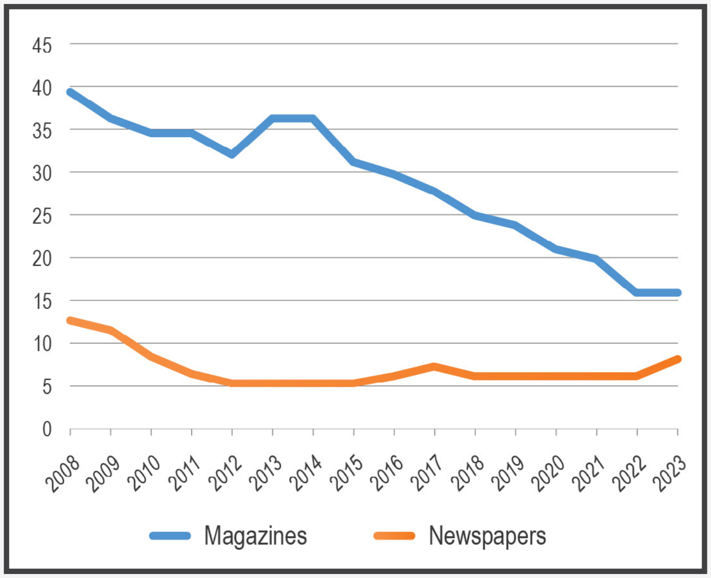
The spread of Internet access accelerated an already sharp decline in periodicals, with volume moving sharply downward beginning in the early 2000s. The Internet provided content at lower cost and with greater accessibility than hard-copy publications, and information could be accessed in real time. Online sources of news, entertainment, and information have proliferated, while traditional hard-copy publications also moved toward providing content on websites and apps. Accordingly, mail subscriptions to magazines and newspapers have rapidly decreased. For example, weekday newspaper circulation dropped from over 48 million copies in 2008 to an estimate of under 21 million in 2021.[28]

27 This decrease occurred even as new rules from the Postal Regulatory Commission allowed the Postal Service to raise rates an additional two percentage points per fiscal year for non-compensatory classes of mail (classes that do not cover their own costs). See: Postal Regulatory Commission, "PRC Adopts Final Rules to Modify the Rate System for Classes of Market Dominant Products", November 30, 2020, https://prc.gov/press-releases/prc-adopts-final-rules-modify-rate-system-classes-market-dominant-products/5013.

28 Pew Research Center, "Newspapers Fact Sheet", November 10, 2023, https://www.pewresearch.org/journalism/fact-sheet/newspapers/.

In FY 2008, according to the Household Diary Survey, each household received an estimated average of 40 magazine mailpieces in the mail per year. In FY 2023, that fell to just 16 pieces, a 60 percent decline. The average number of newspapers received in the mail dropped from 12 pieces per year to eight, a 36 percent decline. (See Figure 15.) Newspaper volume is also affected by the fact that newspapers have traditionally employed alternate means of delivering hard copies to households.

Figure 15: Magazines and Newspapers Received Per Household Annually, FY 2008-2023



Source: USPS Household Diary Survey data.

Periodicals appear to be more sensitive to electronic diversion than most First-Class Mail and Marketing Mail products. In the Postal Service's econometric demand analysis, the estimated negative effect of variables it attributes to the decline in reading and the emergence of online alternatives is higher than its estimates of similar factors for most other categories of mail, including First-Class single piece stamped letters and Marketing Mail commercial letters.

Since the Great Recession, advertisers have spent increasingly less on Periodicals, even when total ad spending has grown. This contributes to the falling volume of magazines and newspapers sent by mail. During the 2008 recession, advertising spending suffered a sharp decline, drastically shrinking the revenues and profitability of the magazine industry.

After 2009, total advertising spending returned to growth (aided by a recovering economy), but spending on magazine advertising continued to fall, reaching its lowest point in 2023.

Impact of Mail Volume Trends on the Postal Service

The decline in Market Dominant mail volume discussed in this paper has two major effects on the Postal Service's financial health. First, it reduces mail density and therefore makes mail delivery increasingly less profitable per address served. Second, stagnating revenue makes it steadily more difficult for the Postal Service to operate as a self-funded entity.

Reduced Mail Density

While mail volume has decreased, the number of delivery points has increased. This reduction in mail density makes it more costly to deliver each piece of mail. The number of delivery points (including city, rural, PO Box, and highway addresses) grew from 149 million in FY 2008 to 167 million in FY 2023. With the decline in mail volume, Market Dominant mail density fell from 1,350 pieces per delivery point annually to 655 pieces over that period, a drop of 52 percent.

> **Periodicals appear to be more sensitive to electronic diversion than most First-Class Mail and Marketing Mail products.**

The more density drops, the costlier it is for the Postal Service to serve an address. The Postal Service invests in employees, transportation, and processing infrastructure necessary to deliver mail across a nationwide network six days a week. To a large extent, these are fixed costs, as the Postal Service is obligated to provide universal mail service. As each delivery point becomes less profitable, the delivery network becomes more difficult to sustain. Some other countries that faced similar reductions in mail density have cut down on their delivery days per week, but in the United States six day per week delivery is mandated by law (most recently codified in the Postal Service Reform Act of 2022). Other countries have instituted funds to help posts meet the costs of providing universal mail service, but no such fund is currently in place in the U.S.[29]

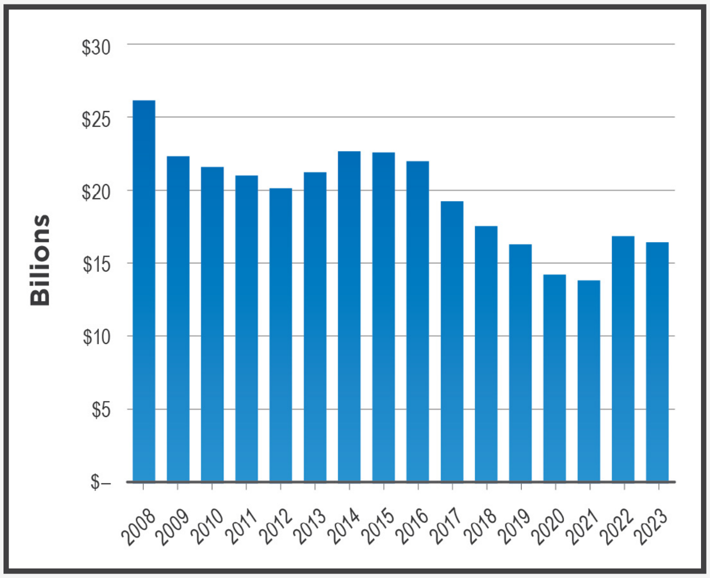
Effects of Stagnating Revenue

The Postal Service was created in 1971 as an independent agency with a mandate to be self-financing. The agency funds its operations through revenue from its postal products and generally receives no direct tax dollars.[30] But throughout the period of our analysis from FY 2008 through FY 2023, operational revenue has not been sufficient; the Postal Service has run at a loss every year except for FY 2022, when postal reform legislation changed the agency's retiree health benefit funding obligations in a way that added $56 billion to its balance sheet.

The mail volume trends explored in this paper are a key reason the Postal Service faces this difficult financial challenge. Mail classes that have been crucial to funding operations are providing less revenue than in the past, with the three major classes of Market Dominant mail all contributing less revenue to the Postal Service in FY 2023 than they did in FY 2008. At the same time, the cost of delivering those products has increased. As a result, the total contribution (revenue minus attributable costs) of Market Dominant mail fell from $26.1 billion in FY 2008 to $16.5 billion in FY 2023. (See Figure 16.)

The total contribution (revenue minus attributable costs) of Market Dominant mail fell from $26.2 billion in FY 2008 to $16.4 billion in FY 2023.

Figure 16: Total Contribution for Market Dominant Mail, FY 2008-2023



Source: OIG Analysis of USPS annual Cost and Revenue Analysis reports.

One of the main priorities of the Postal Service in recent years has been to strengthen its position in the package market. Competitive product revenue – mainly packages – has increased significantly since FY 2008, but not enough to keep pace with the agency's increasing expenses. The agency's total operating revenue increased $3 billion during our period of analysis, from $75 billion in 2008 to $78 billion in 2023, but operating expenses rose $7 billion, from $78 billion to $85 billion, over the same period. As a result, the Postal Service's operating loss grew from $2.8 billion in FY 2008 to $6.5 billion in FY 2023.

29 39 U.S.C. §2401(b) allows the Postal Service to request appropriations of up to $460,000,000 for "public service costs." However, USPS has operated without this appropriation since FY 1982. For a more in-depth exploration of the regulatory frameworks overseeing the service provided by USPS and other national posts, see: USPS OIG, "Variations and Trends in Postal Regulatory Oversight," RISC-WP-24-003, March 4, 2024, Variations and Trends in Postal Regulatory Oversight | Office of Inspector General OIG (uspsoig.gov).

30 The Postal Service has received federal funding in specific scenarios, including an appropriation to help fund the purchase of zero-emission vehicles and a COVID-19-era loan that was later converted into a grant.

Turning around the agency's financial situation will be difficult as mail volume and revenue continue to decline.[31] In light of long-term financial losses, the Postal Service released the Delivering for America (DFA) 10-year plan in March 2021. The plan projected reaching a breakeven point in FY 2023 and achieving positive net income in the following years. The DFA is intended to enable the Postal Service to operate in a financially self-sustaining manner by, among other initiatives, reorganizing the processing network, optimizing for package delivery, and utilizing pricing authorities granted by the Postal Regulatory Commission to raise Market Dominant prices above the rate of inflation. Mail volume in FY 2022 and FY 2023 was higher than the Postal Service had forecasted in the DFA but still declined in these years, including by 9.1 percent in FY 2023. That decline, along with higher than anticipated expenses for processing and work hours, negatively impacted the agency's financials, including a $6.5 billion net loss in FY 2023.[32] While the DFA has had a strong focus on the package market, Market Dominant mail still contributed 53 percent of the Postal Service's revenue in FY 2023; future trends in mail volumes will have a critical impact on the agency's ability to restore its profitability in the future.[33]

Conclusion

The information on mail volume declines presented here is essential for understanding the current state of the Postal Service and the context in which the agency and postal stakeholders must make strategic decisions about the future.

Analyzing mail volume trends over the past 16 fiscal years makes clear the difficult situation facing the Postal Service. First-Class Mail, historically the focus of the agency's operations, has steadily declined as people move toward electronic alternatives. This has decreased operating revenues and put strains on the Postal Service's expansive network as people rely less on Market Dominant mail as an essential means of communication and transaction. Marketing Mail, the other large profitable mail class, has also declined as advertisers can choose from a variety of digital channels that may provide a higher return on investment. Periodicals have declined significantly, although the fact that they have long been a money-losing product for the Postal Service may reduce concerns about this trend.

The factors driving mail volume trends represent a significant and irreversible change in the way our society communicates. Under the Delivering for America plan released in March 2021, the Postal Service has focused, among many priorities, on network optimization and winning the growing package market as the key to a financial turnaround. Yet, Market Dominant mail still contributed 53 percent of the Postal Service's revenue in FY 2023, and so future trends in mail volumes will have a critical impact on the Postal Service's ability to restore its profitability going forward.

31 A related white paper from the USPS OIG examined unique laws and regulations that have had the most substantial impact on the Postal Service's business decision-making, finances and operations, and discussed their implications. See: USPS OIG, *Business or Public Service? Insights Into the Unique Laws and Regulations Applying to the Postal Service*, Report Number RISC – WP-24-006, August 2, 2024, https://www.uspsoig.gov/reports/white-papers/business-public-service-insights.

32 For more on the Postal Service's financial condition, see: USPS OIG, *State of the U.S. Postal Service's Financial Condition*, Report Number 23-167-R24, June 21, 2024, https://www.uspsoig.gov/reports/audit-reports/state-us-postal-services-financial-condition.

33 For more on the Postal Service's financial condition, see: USPS OIG, *State of the U.S. Postal Service Financial Condition*, Audit Report Number 23-167-R24, June 21, 2024, State of the U.S. Postal Service's Financial Condition | Office of Inspector General OIG (uspsoig.gov).

Appendices

Appendix A: Additional Information

Objective(s), Scope, and Methodology

The first objective of this paper was to present historical trends in mail volume across different classes of Market Dominant mail. The second objective of the paper was to describe the key factors influencing these trends in mail volume and their effects on the Postal Service.

The scope of this paper was Market Dominant mail products from fiscal years 2001 through 2023, though most of the data presented focuses on the period of declining mail volume from 2008 through 2023. The OIG did not attempt to assess Postal Service's models for mail demand or cost coverage.

To provide an overview of historical trends in mail volume the team presented an overview of mail volume trends across major classes of mail beginning in FY 2001 and ending in FY 2023. This period of analysis captured the rise of mail volume through the mid-2000s, its peak, and its gradual decline through the present day. This data was contextualized by presenting other data related to mail volume, such as revenue and cost coverage for classes of Market Dominant mail over time. The team collected data from the Postal Service's Revenue, Pieces, and Weight Reports, Cost and Revenue Analysis Reports, Form 10-Ks, and Household Diary Studies.

To describe the trends influencing mail volume the team conducted qualitative research analyzing factors that have contributed to them. The project team reviewed previously published research on the factors affecting mail volume in the United States. Additionally, the team reviewed the USPS' annual Household Diary Study for insights on how household use of mail has changed over time. The team also conducted interviews with relevant subject matter experts within the Postal Service.

The inspection was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. We discussed our observations and conclusions with management on August 7, 2024 and included their comments where appropriate.

Prior Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
State of the U.S. Postal Service's Financial Condition	To evaluate the financial performance of the Postal Service in relation to its DFA plan financial projections.	23-167-R24	June 21, 2024	None
Assumptions and Metrics Underlying the Delivering for America 10-Year Plan	Evaluate the DFA plan to determine if the underlying assumptions and projections were supported and whether metrics were established and reasonable.	21-224-R22	July 6, 2022	None
The Postal Service in the 21st Century: A Recent History	Provide a high-level overview of the Postal Service's operational environment since the turn of the new millennium.	RISC-WP-23-003	January 11, 2023	None
Declines in U.S. Postal Service Mail Volume Vary Widely across the United States	Examine how declines in mail volume vary regionally and demographically across the United States.	RARC-WP-15-010	April 27, 2015	None

Appendix B: Management's Comments

UNITED STATES POSTAL SERVICE

8/27/2024

MARK TASKY
DEPUTY ASSISTANT INSPECTOR GENERAL
RESEARCH AND INSIGHTS SOLUTION CENTER

SUBJECT: Management Response: Analysis of Historical Mail Volume Trends – White Paper (2024RISC004)

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG's) white paper: *Analysis of Historical Mail Volume Trends.*

The OIG developed a relatively balanced summary of the history of mail volume trends, their drivers, and the impact on the Postal Service. Postal Service Market Dominant mail volume trends are driven by a complex and varied set of drivers which dynamically change over time. Mail volume trends are primarily driven by changes in individual customer behavior/business practices, economic conditions, technological developments, advertising market dynamics, and Postal Service classifications. Overall mail volume consumers continue to be inelastic with respect to price, as measured by Postal Service economic demand equations.

E-SIGNED by SHARON.D OWENS
on 2024-08-27 13:52:18 EDT

Sharon Owens
Vice President, Pricing & Costing

E-SIGNED by MARGARET.M PEPE
on 2024-08-27 15:50:48 EDT

Margaret M. Pepe
Executive Director, Product Solutions

cc: *Corporate Audit & Response Management*

John Althen, Tristan Dreisbach, and David Neu contributed to this report.

Contact us via our Hotline and FOIA forms. Follow us on social networks. Stay informed.

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