

U.S. Postal Service Loss Widens in Second Quarter

WASHINGTON — The U.S. Postal Service ended the second quarter of this fiscal year (Jan. 1 – March 31, 2011) with a net loss of \$2.2 billion, compared to a net loss of \$1.6 billion for the same period in FY 2010.

Despite significant cost reductions and revenue growth initiatives, current financial projections indicate that the Postal Service will have a cash shortfall and will have reached its statutory borrowing limit by the end of the fiscal year. Absent substantial legislative change, the Postal Service will be forced to default on payments to the federal government.

“The Postal Service continues to seek changes in the law to enable a more flexible and sustainable business model,” said Postmaster General and CEO Patrick R. Donahoe. “We are committed to working with Congress and the administration to resolve these issues prior to the end of the fiscal year. The Postal Service may return to financial stability only through significant changes to the laws that limit flexibility and impose undue financial burdens.”

Mailing Services revenue of \$14.0 billion decreased \$568 million, or 3.9 percent, in the second quarter of 2011, compared to the same period a year ago. Mailing Services volume of 40.7 billion pieces represents a 3.1 percent decline from the same period a year earlier. The modest increase in revenue from Standard Mail was not sufficient to offset the loss of revenue from the reduced volume of First-Class Mail.

“Sluggish economic growth and diversion of First-Class Mail to electronic alternatives continue to cause record losses, despite a reduction of over 130,000 full-time equivalents (FTEs) in the last three years,” says Joseph Corbett, CFO and executive vice president. The Postal Service reduced work hours in the second quarter by 9.6 million hours or 3.2 percent. The number of career employees on March 31, 2011, was 571,566, a reduction of 6,726 employees during the second quarter.

Mailing Services results in the second quarter include:

- * First-Class Mail revenue of \$8.0 billion, on volume of 18.5 billion pieces;
- * Standard Mail revenue of \$4.2 billion, on volume of 20.2 billion pieces;
- * Periodicals revenue of \$443 million, on volume of 1.7 billion pieces; and
- * Package Services revenue of \$394 million, on volume of 167 million pieces.

Shipping Services revenue of \$2.2 billion increased 5.0 percent or \$105 million compared to the same period a year ago. Shipping Services volume of 352 million pieces represented a 3.5 percent increase compared to the same period a year earlier.

Details of the second quarter results include:

- * Total mail volume of 41.0 billion pieces, compared to 42.3 billion pieces in the same period a year earlier, a decrease of 3.0 percent, led by a drop in First-Class Mail; and
- * Operating revenue of \$16.2 billion, compared to \$16.7 billion in the same period a year earlier, a decrease of 2.8 percent.

Service performance remained excellent during the second quarter, with the national score for overnight Single-Piece First-Class Mail arriving on time 96 percent of the time, a slight improvement over the same period a year earlier.

A number of new marketing initiatives have been introduced that may help to improve revenue growth in 2011, including expansion of simplified addressing for business mailers, Every Door Direct Mail, Priority Mail Regional Rate Boxes, and Reply Rides Free. In January 2011, new Shipping Services prices increased an average of 3.6 percent. New Mailing Services prices that are limited to the Consumer Price Index cap of 1.7 percent took effect April 17, after the close of the second quarter.

While new marketing initiatives and price increases may improve revenue growth, electronic diversion will continue to cause reductions in First-Class Mail.

The Postal Service is aggressively reducing expenses, including organizational redesign initiatives. The Postal Service projects \$1.2 billion to \$1.6 billion in cost savings in fiscal year 2011, including a reduction of workhours across the organization. Benefits of these initiatives, however, may be offset by rising fuel prices.