

Alliance Alert–USPS on Running Out of Cash: Never Mind! 6/22/20



Alliance
of Nonprofit
Mailers

ALERT

June 22, 2020

Dear Members & Sponsors of the Alliance of Nonprofit Mailers:

Hello, everyone! We hope you are doing well!

USPS on Running Out of Cash: Never Mind!

Today, the USPS Chief Financial Officer & Executive VP, Joe Corbett, Finance & Strategy Senior VP, Luke Grossman, General Counsel & Executive VP, Tom Marshall, and Marketing VP, Steve Monteith, briefed mailer associations on a new forecast. They previously shared the information with the Hill oversight committees.

April Forecast

Recall that in early April the USPS briefed the House oversight committee and members of the media that its forecasts of the impact of the pandemic indicated that the Postal Service would run out of cash by June 2020. The briefing and follow-up selling by postal unions and House members led to a [firestorm of news reports](#) and headlines across the country.

After receiving a new \$10 billion line of credit from the March 27 CARES Act, the forecast was clearly part of a plan to get more from the next round of Congressional aid for those affected by the pandemic. The Postmaster General then presented a request for a much larger bailout—totaling \$89 billion in grants, loans, and debt forgiveness. At some point in the process the USPS forecast for running out of cash changed to September 2020, still close enough to cause panic.

Our members know that we have been reporting regularly that the forecast would not pan out and a boom in package shipping was offsetting much of the decline in mail revenue.

Change of Heart

Today, the Postal Service essentially said, “never mind,” as it issued a new forecast that admits little confidence about when cash might run out. The finance leaders of USPS today said several times that, “It’s a question of when, not if, we will run out of cash.”

The briefing started with a long preamble about how difficult everyone is finding any kind of forecast these days. Grossman noted that their infamous April 8 USPS forecast was made with only three weeks of data from the pandemic. He mentioned the futility of forecasting experienced by the Congressional Budget Office, the Administration, the Federal Reserve, public companies, and expert economists. All of the postal officers emphasized that no forecast can be taken too seriously now, and all are subject to very likely revision.

The extreme discounting of forecasts in today’s environment does bring into question why the USPS and its allies produced and heavily promoted the early April forecast that the sky was falling. We are forced to assume they believed that it would lead to a major bailout that would ultimately comfort all of the organizations, businesses, and individuals who were very concerned about losing our national postal service.

Grossman said that the mail volume decline has stabilized at about -25 to -30 percent. This is better than the low point of -32.6 percent in the week of May 8. He further noted that the package volume increase reached +80 percent in the week of May 22, but is more recently around +60 percent. There was much discussion of what the “new normal” will be for package volume. In other words, how much have consumer preferences changed in a more permanent way in favor of shopping from home. The postal experts said there is no way to know.

After discrediting the value of postal forecasts, the USPS team revealed their new forecasts. Key assumptions are: mail will continue to be depressed by 20 to 25 percent before resuming secular

declines and USPS will not use the new \$10 billion line of credit it received from the CARES Act. (They apparently assumed the latter because they have not worked out terms and conditions of the lending with the Treasury.)

New Forecasts

Forecast 1: Packages return to pre-Covid level, mail is down 20-25 percent

- Run out of cash in March 2021.
- \$17 billion in Covid-related losses in 2020-21.
- \$50 billion in Covid-related losses over 10 years.

Forecast 2: Packages settle at 15 percent above pre-Covid, mail is down 20-25 percent

- Run out of cash in October 2021.
- \$7 billion in Covid-related losses in 2020-21.
- \$17.3 billion in Covid-related losses over 10 years.

So, the optimistic forecast assume USPS will retain only a +15 percent increase in package volume that was up +80 percent a month ago and +60 percent now. And mail volume will stay depressed at -20 to -25 percent. Under that projection, cash would become a problem in 15 months, and only if the agency does not use its \$10 billion new line of credit with Treasury. Under the even more unlikely scenario that package shipments with USPS rather quickly return to pre-pandemic levels, cash might run out in 8 months.

The Postal Service committed forecasting malpractice in April by predicting the agency would run out of cash by now. It has been forced to revise that forecast with one that gives much more breathing room for real reform to be implemented.

We agree with them, however, that forecasting now is very unreliable.

Best, Steve

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