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# PAPER, POSTAL, LABOR, AND LOGISTICS MARKET UPDATE

September 28<sup>th</sup>, 2022





# SPEAKERS



Deborah Damore  
Moderator, Postal Affairs  
LSC Communications



Jonathan Starks  
Chief Intelligence  
Officer  
FTR



Paula Montgomery  
SVP Customer  
Experience  
LSC Communications



Elizabeth Blanch  
VP. Human Resources  
LSC Communications



# AGENDA

## PAPER, POSTAL, LABOR, AND LOGISTICS MARKETPLACE UPDATE

- 1 Logistics Update with FTR
- 2 Paper Market Update
- 3 Labor Market Update
- 4 Postal Update
- 5 Question & Answer

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# TRANSPORTATION UPDATE

LSC

Paper, Labor, and Supply Chain Logistics Market  
Update

September 28, 2022

Download slides at [www.ftrintel.com/lsc2022](http://www.ftrintel.com/lsc2022)



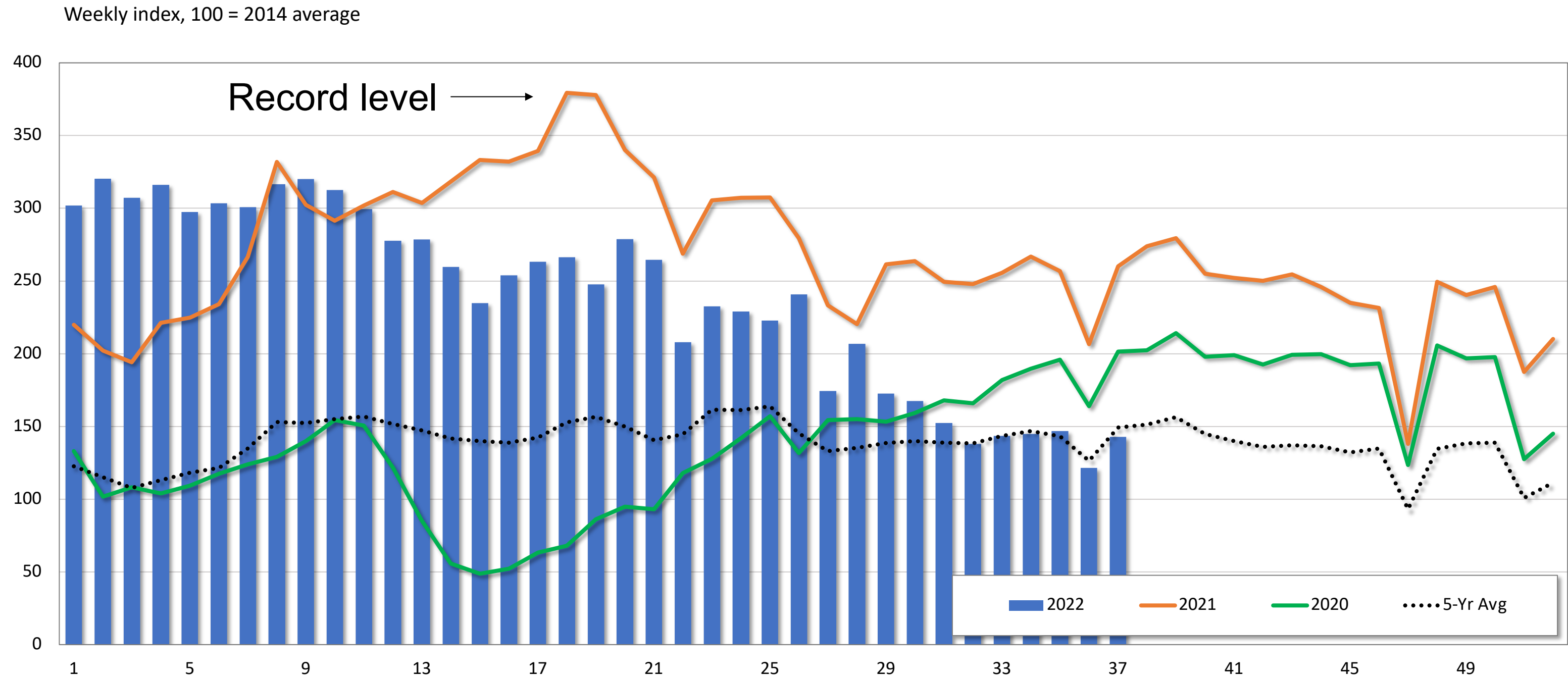
# TRANSPORTATION UPDATE

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- Spot market activity is “normalizing” at a lower level.
- Overall demand for trucking has slowed but remains at strong levels.
- Utilization is moving lower as productivity improves.
- Trucking costs have peaked, but are unlikely to move significantly lower from where they are now.
- Rail service has not gotten worse, nor has it improved relative to long-term trends.

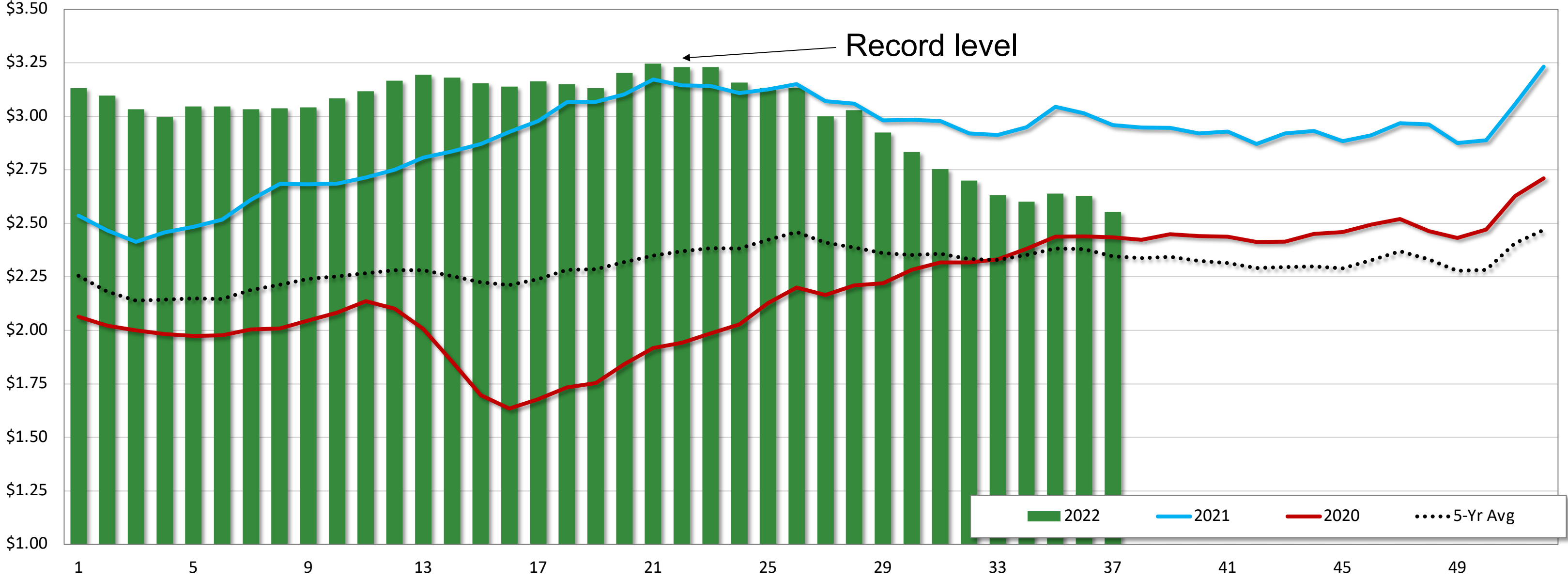
# TRUCKING

# TOTAL SPOT LOADS



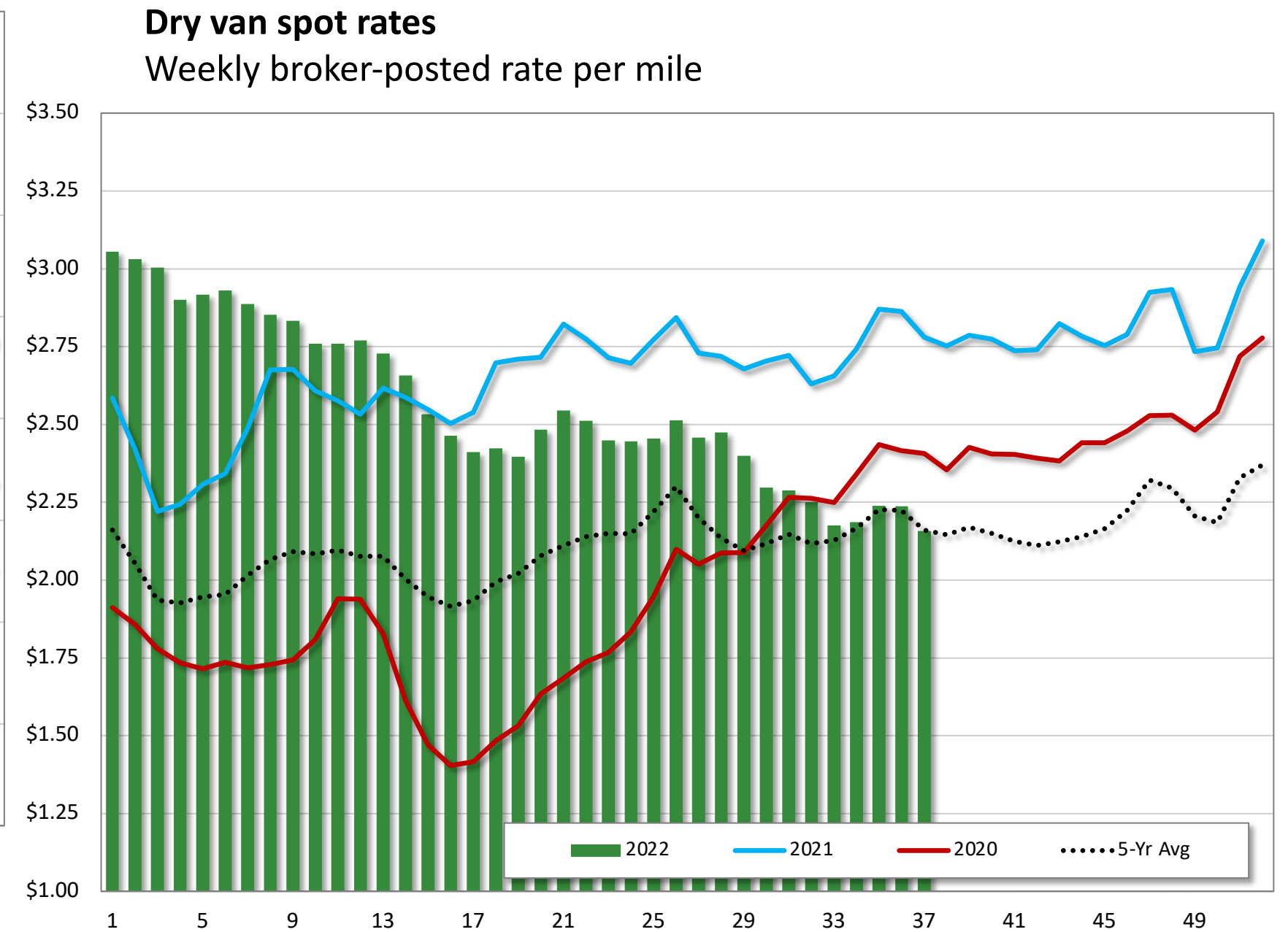
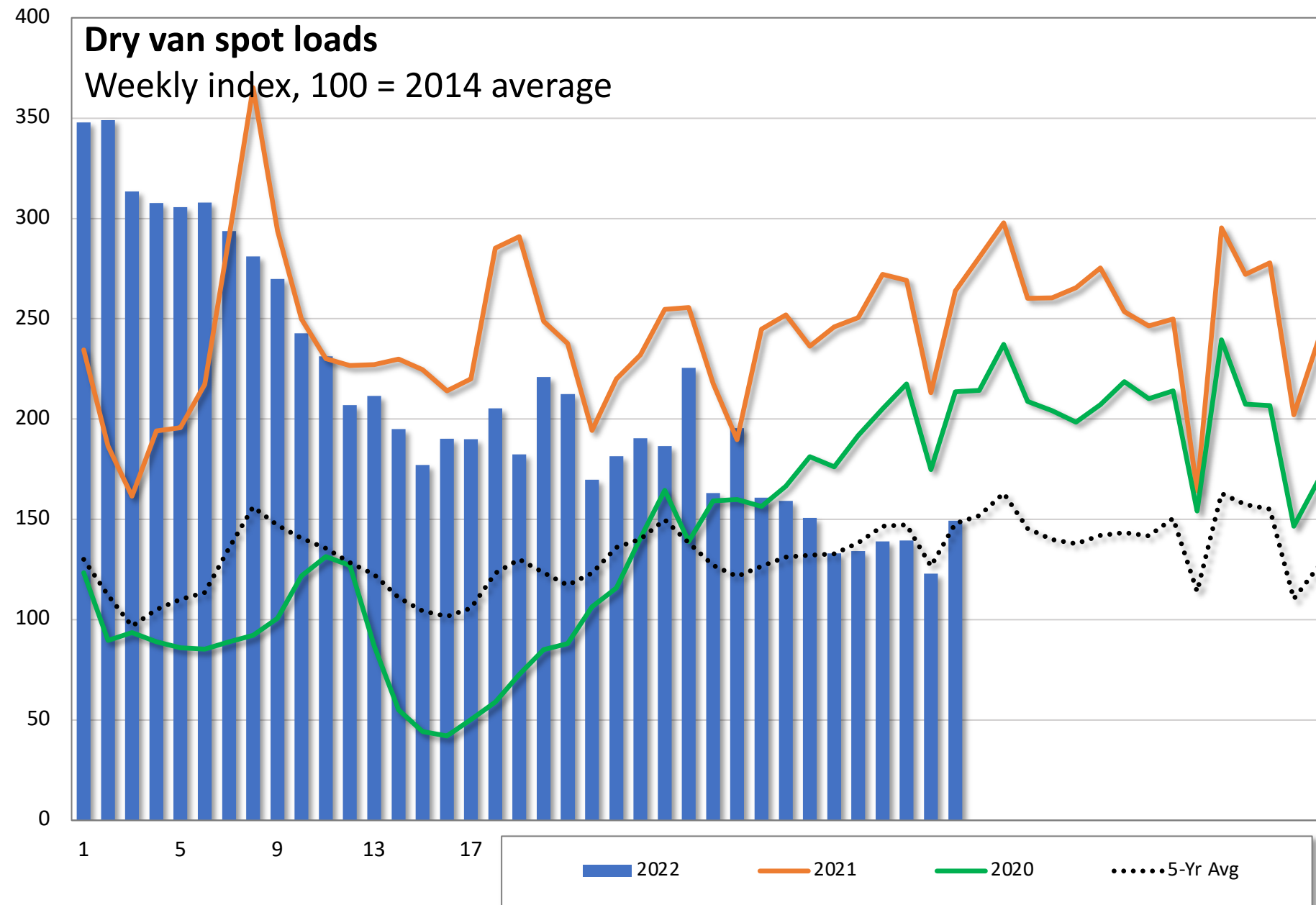
# TOTAL SPOT RATES

Weekly broker-posted rate per mile

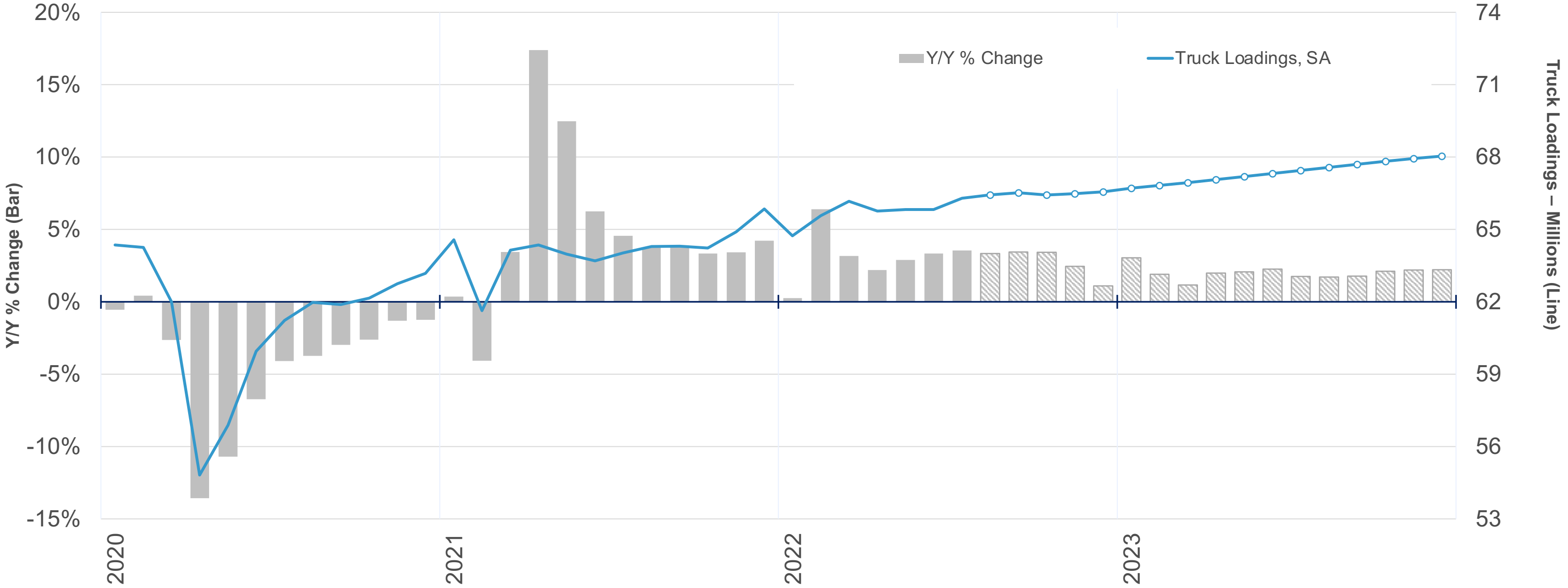




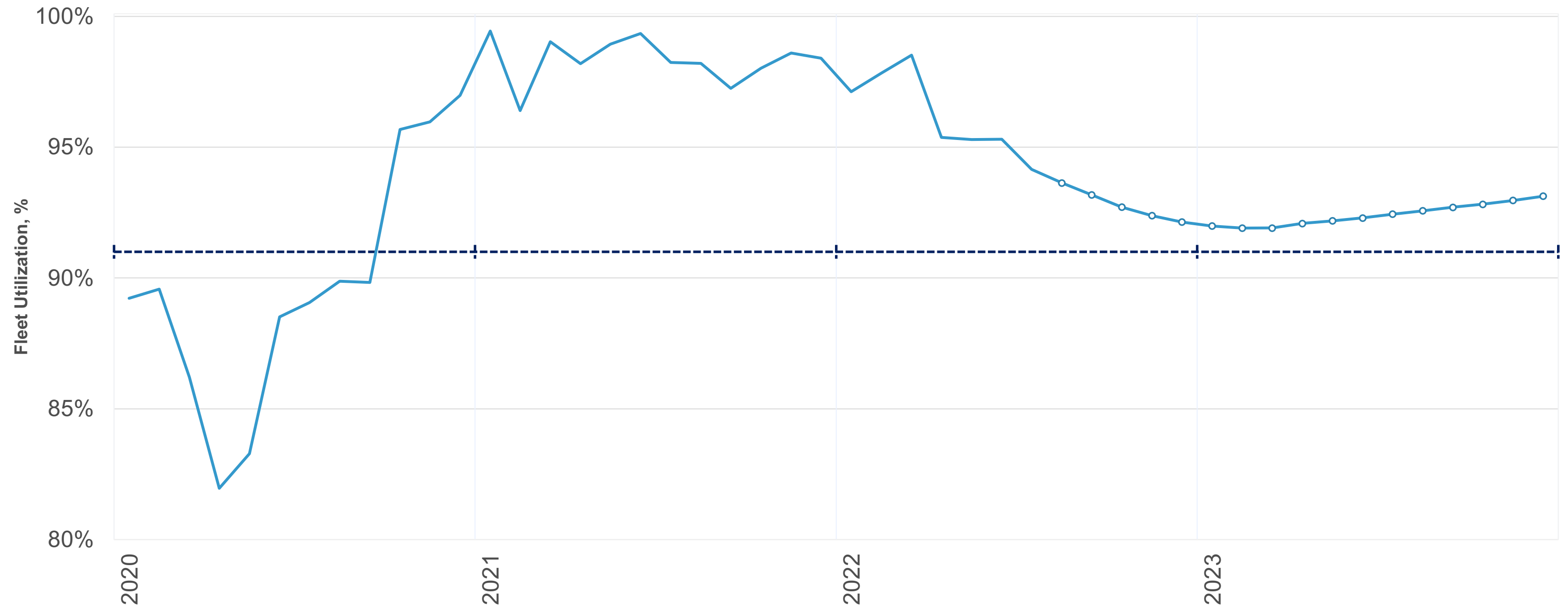
# DRY VAN SPOT METRICS



# TRUCKING VOLUME OUTLOOK

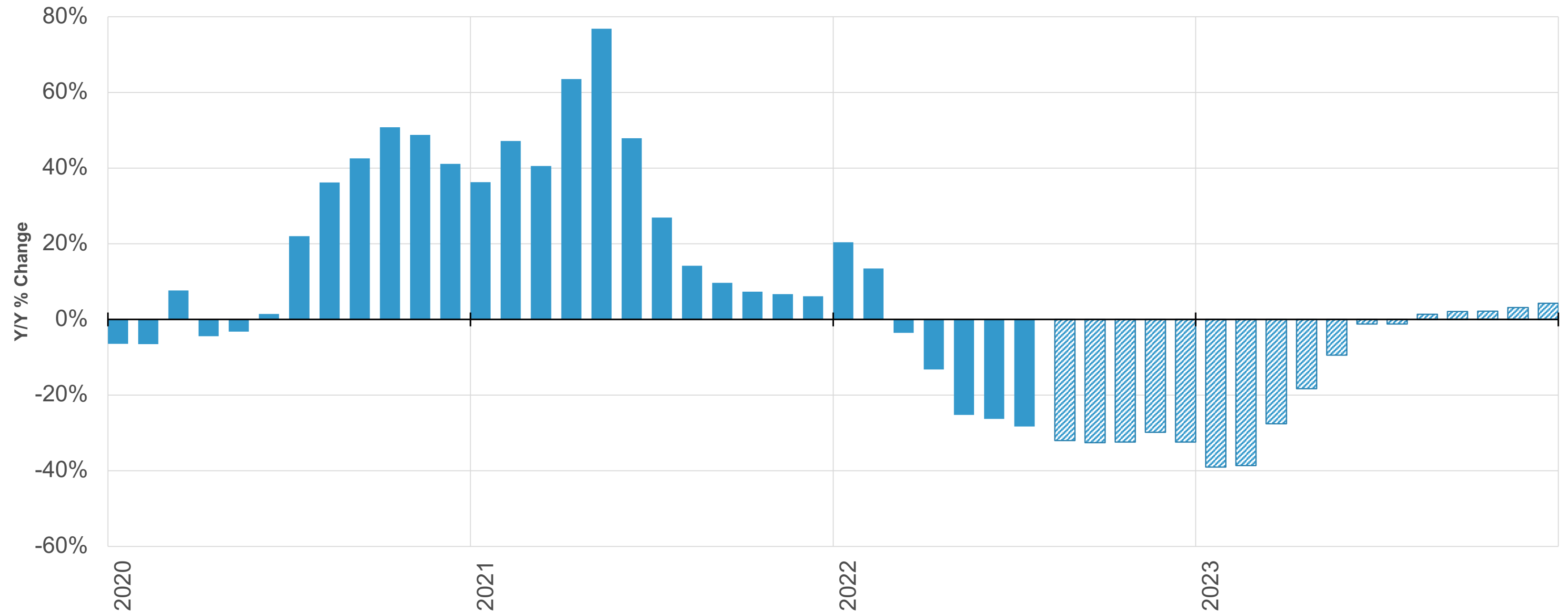


# ACTIVE TRUCK UTILIZATION



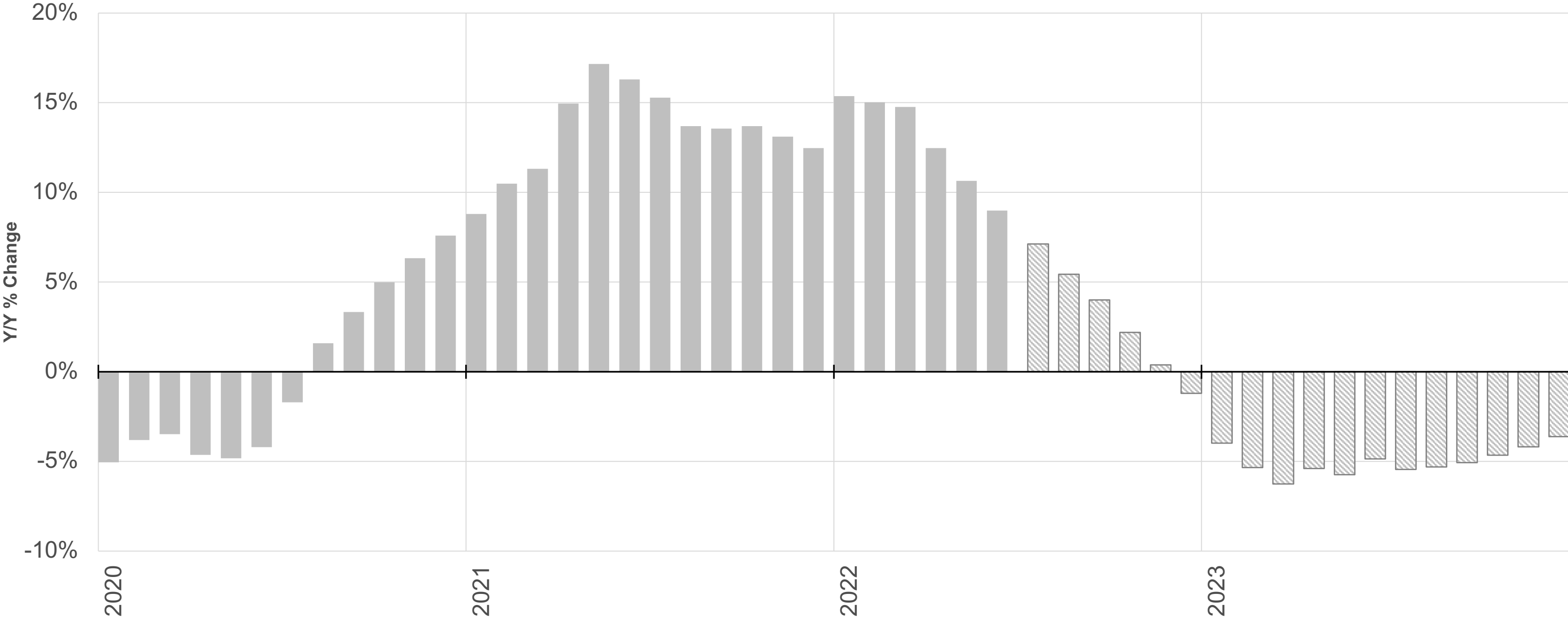
Source: FTR | Transportation Intelligence™  
Dashed Line = 10-year average, data is seasonally adjusted  
Share of seated trucks actively engaged

# DRY VAN SPOT RATES OUTLOOK



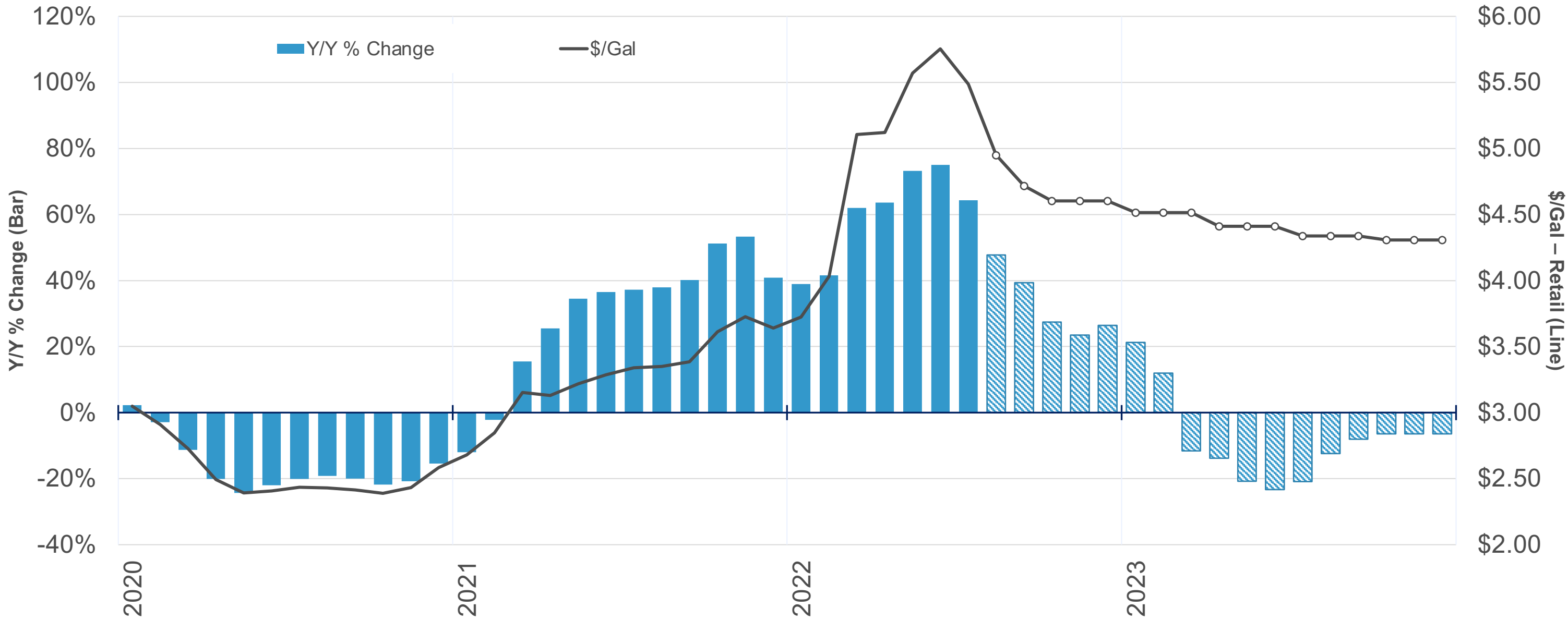
Source: FTR | Transportation Intelligence™; Copyright 2022, FTR  
Rate excludes Fuel Surcharge / Revenue per Loaded Mile, data

# DRY VAN CONTRACT RATES OUTLOOK



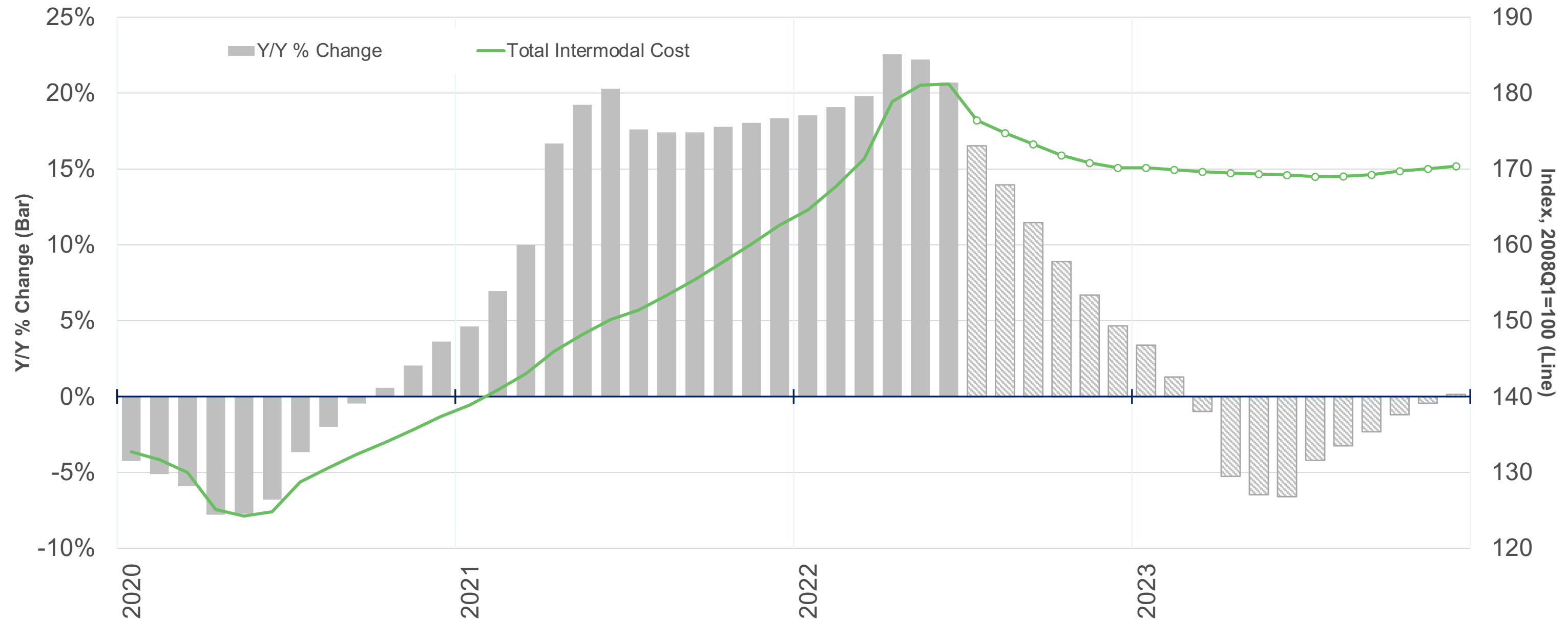
Source: FTR | Transportation Intelligence™; Copyright 2022, FTR  
*Rate excludes Fuel Surcharge / Revenue per Loaded Mile, data is seasonally*

# DIESEL PRICE OUTLOOK



# INTERMODAL

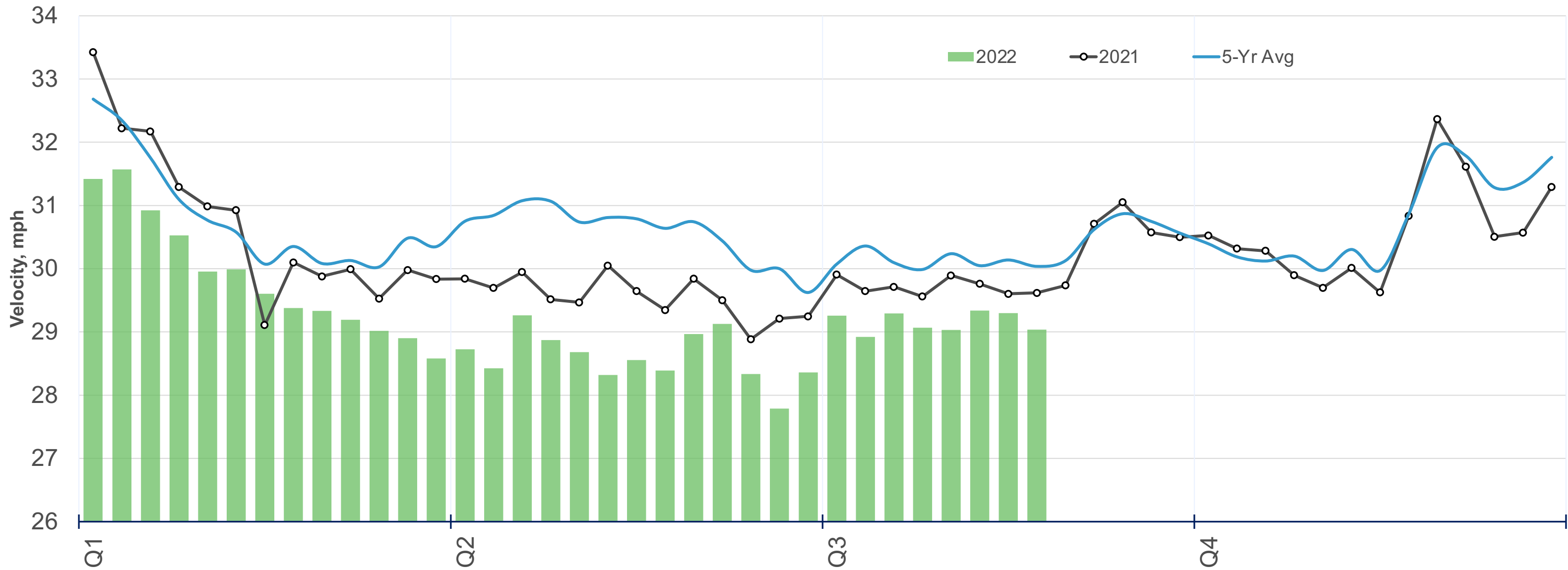
# INTERMODAL COST OUTLOOK



Source: FTR | Transportation Intelligence™; Copyright 2022, FTR  
 Rate including Fuel Surcharge, estimated rate includes rail linehaul and drayage move



# INTERMODAL VELOCITY



Source: STB, FTR | Transportation Intelligence™; Copyright 2022, FTR  
*Weekly reported train speeds, miles per hour*



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# PAPER MARKET UPDATE + 2023 FORECAST

September 28<sup>th</sup>, 2022





# PAPER MARKET THEMES

- Price increases continuing, on all grades
- Mill late deliveries; Low inventories
- Rising input costs
  - pulp, labor, energy, chemicals, freight
- Energy crisis in Europe strengthening
- Machine conversions & shuts; coupled with mill consolidations
- Surcharges
- Port congestion & container shortages



# EUROPEAN ENERGY CRISES UPDATE



TTF Natural Gas futures are up 345% vs. one year ago and up 89% in the last six months.

- On 9/2 Gazprom shut down natural gas flows to Europe via the Nord Stream 1 pipeline. Russia says gas flows will resume only if the “collective West” lifts sanctions that were put in place after Russia’s invasion of Ukraine.
- The complete halt at Nord Stream 1 sent the benchmark Dutch natural-gas futures surging by 18% on Monday 9/5.
- **The risk of temporary production stops due to high natural gas prices and/or the continued stoppage of gas flowing from Russia to Europe, is increasing rapidly, and this could compromise paper availability in the next three to six months.**

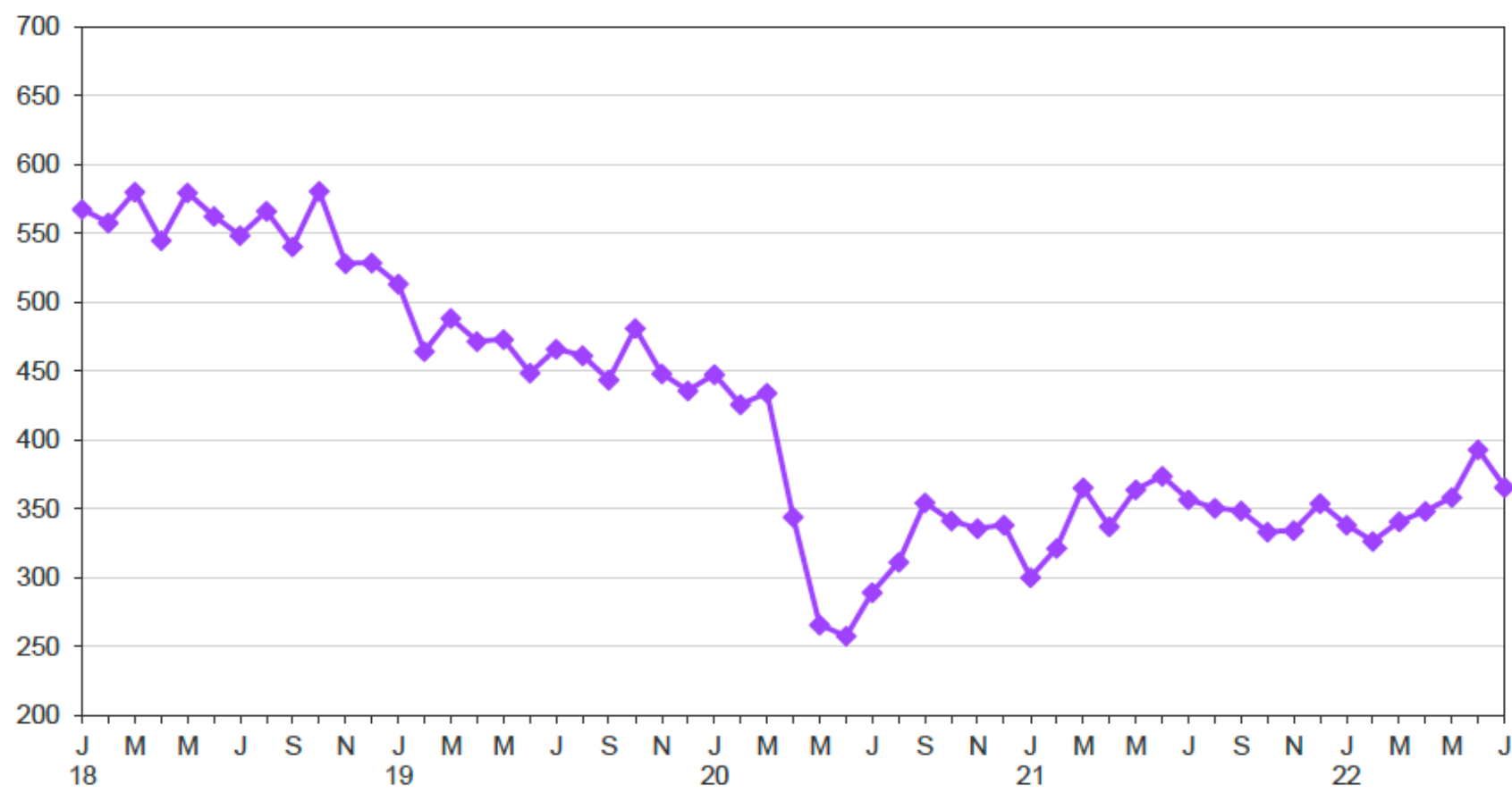
## TOTAL ENERGY CONSUMPTION BY SOURCE

	Finland	Germany	UK	USA
Oil	21%	32%	31%	36%
Coal	6%	9%	2%	11%
Natural Gas	6%	27%	30%	32%
Nuclear Energy	19%	6%	9%	8%
Net Import of Electricity	4%	1%	0%	0%
Hydro Power	4%	1%	4%	3%
Wind Power	2%	4%	22%	4%
Solar	0%	2%	2%	1%
Waste	0%	1%	0%	0%
Peat	3%	0%	0%	0%
Wood Fuels	28%	7%	2%	4%
Geothermal	0%	1%	0%	1%
Lignite	0%	9%	0%	0%
Others	7%	0%	0%	0%
<b>Total Energy Consumption</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



# NA PAPER DEMAND + CAPACITY

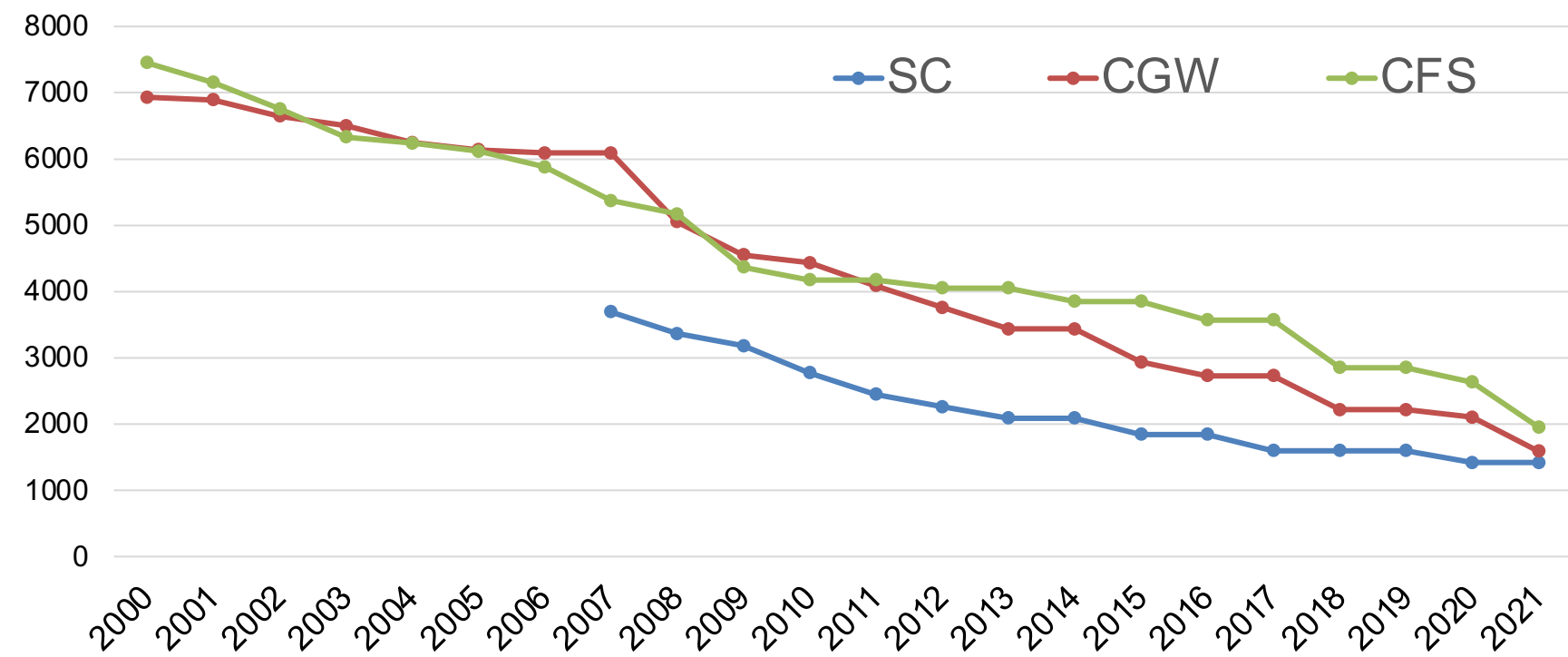
North American coated paper demand by month  
Thousand tons, seasonally adjusted



Data source: PPPC and AF&PA (shipments), US Commerce Department (trade) and Fastmarkets seasonal adjustments.  
Data revised to include coated bristles.

- RISI expects NA P&W demand to **increase 5% in 2021-22.**
- This **larger-than-expected recovery** has left every market extremely tight, and this has prevented demand from making an even stronger rebound due to sheer lack of supply.

### N.A. CAPACITY

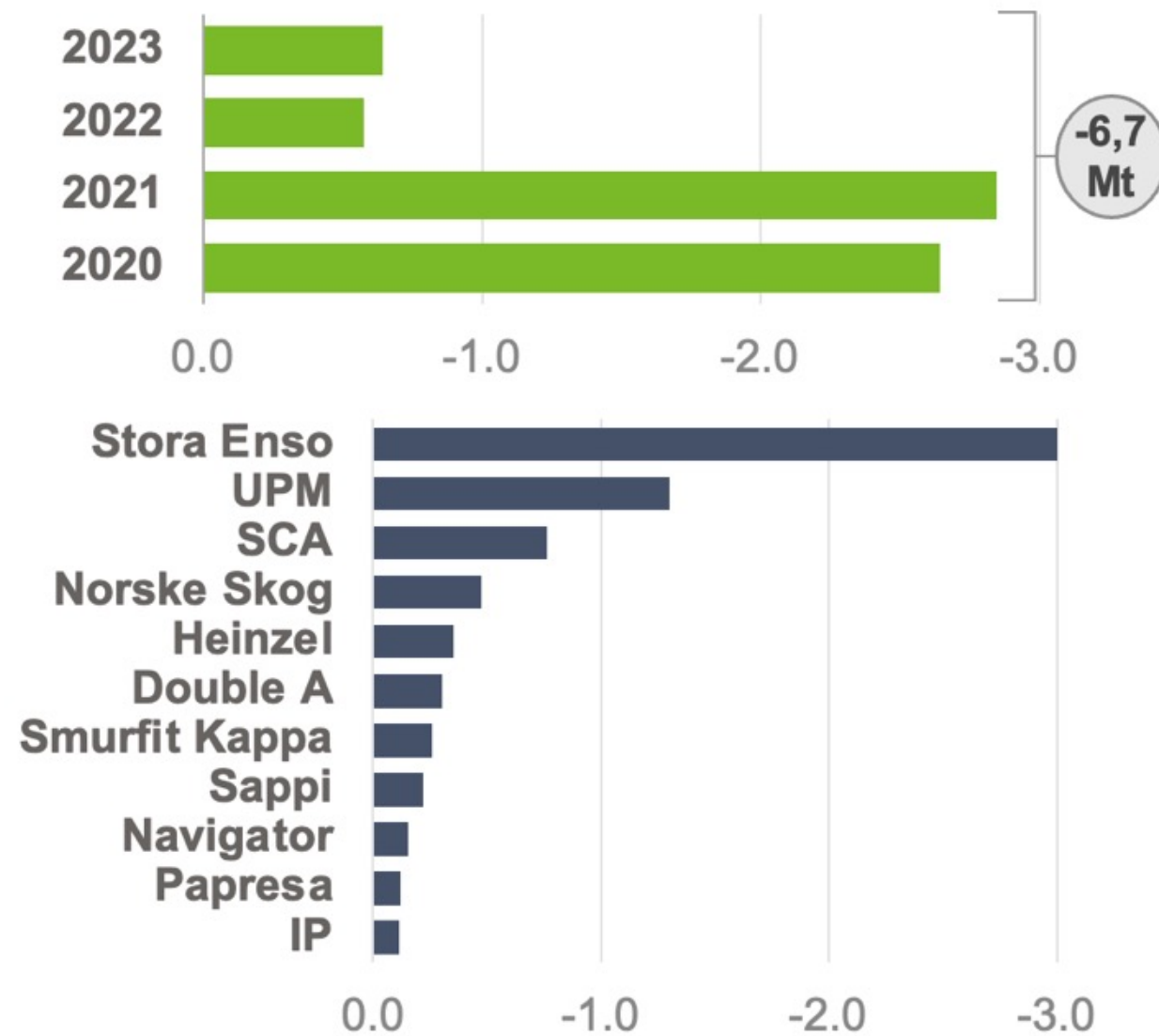


- N.A. CFS and CGW capacity are both **off approximately 75% from 2000 levels.**
- **SC has leveled off** while CFS and CGW have continued to slide.

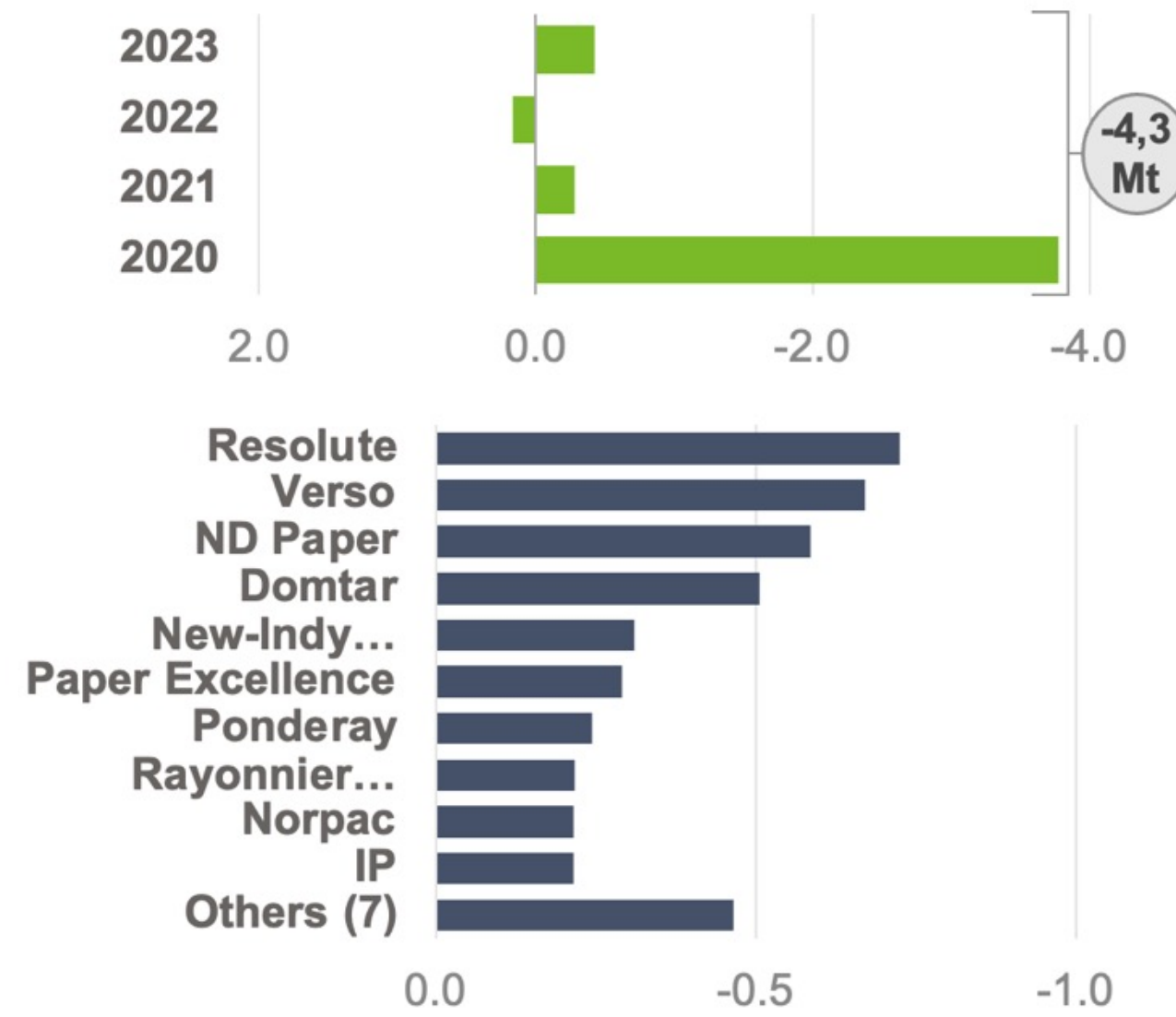


# GRAPHIC PAPER 2020-2023 CAPACITY REDUCTIONS – 11M TONS LOST!

**Europe** (Million tons, annualized)



**North America** (Million tons, annualized)



**Notes:**

- Capacity increase for 2022 reflects the Domtar Ashdown restart of PM62.
- 2023 includes planned conversion of Biron PM26.
- BillerudKorsnäs converting Escanaba machines in 2025 and 2029, reductions not included above.
- StoraEnso selling four mills but they will continue producing paper in the meantime, future reductions not included above.

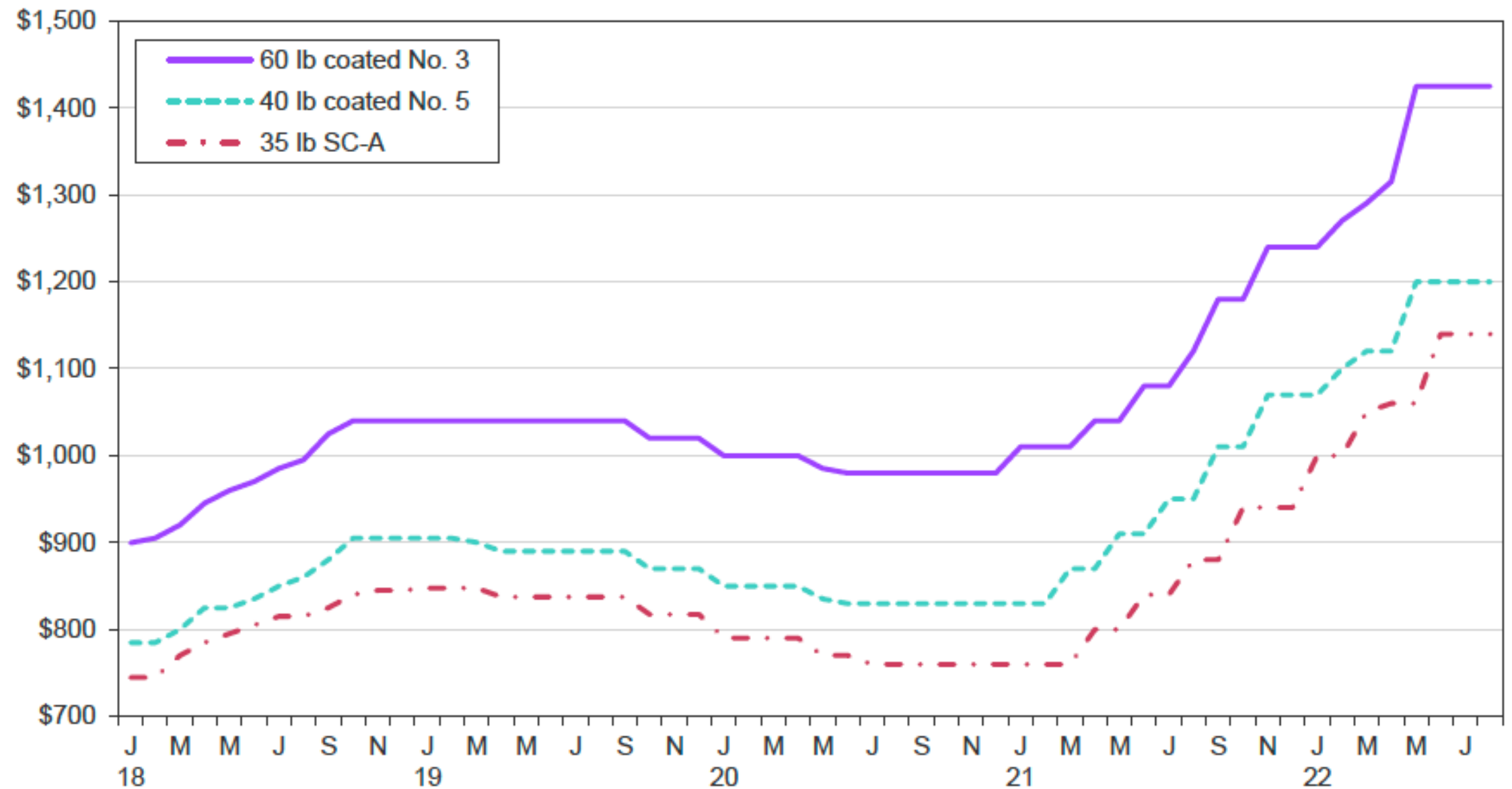


# CURRENT PAPER MARKET CONDITIONS – PRICING

- North American coated paper markets remain tight.
- Inventories remain at an absolute minimum level.
- Operating rates for coated freesheet are still essentially at 100% or even higher.
- With conditions so supportive and **cost inflation still an issue**, RISI continues to forecast that another coated price increase will be announced and successfully implemented in 2022.

## Publishing paper prices in the US

US dollars per ton, delivered



Data source: Fastmarkets estimates.



# SUMMARY

## KEY TAKEAWAYS

- All suppliers are on **allocation, supply restrictions or even moratorium.**
- Mill inventories across all grade segments are at record **5-year lows.**
- Imports from all regions are being held up due to lack of containers, **high costs for containers** and energy surcharges.
- We are seeing **unprecedented energy surcharges** on shipments from many mills, and several European mills are taking downtime due to energy prices.
- The expectation is things **will not improve until well into late 2022 or early 2023.** We need to be thinking 90 days in advance. **Forecasting is absolutely CRITICAL!!!!**
- **Hopeful for a more balanced market in 2023**





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# LABOR UPDATE

September 28<sup>th</sup>, 2022





# OUR NEW REALITY...



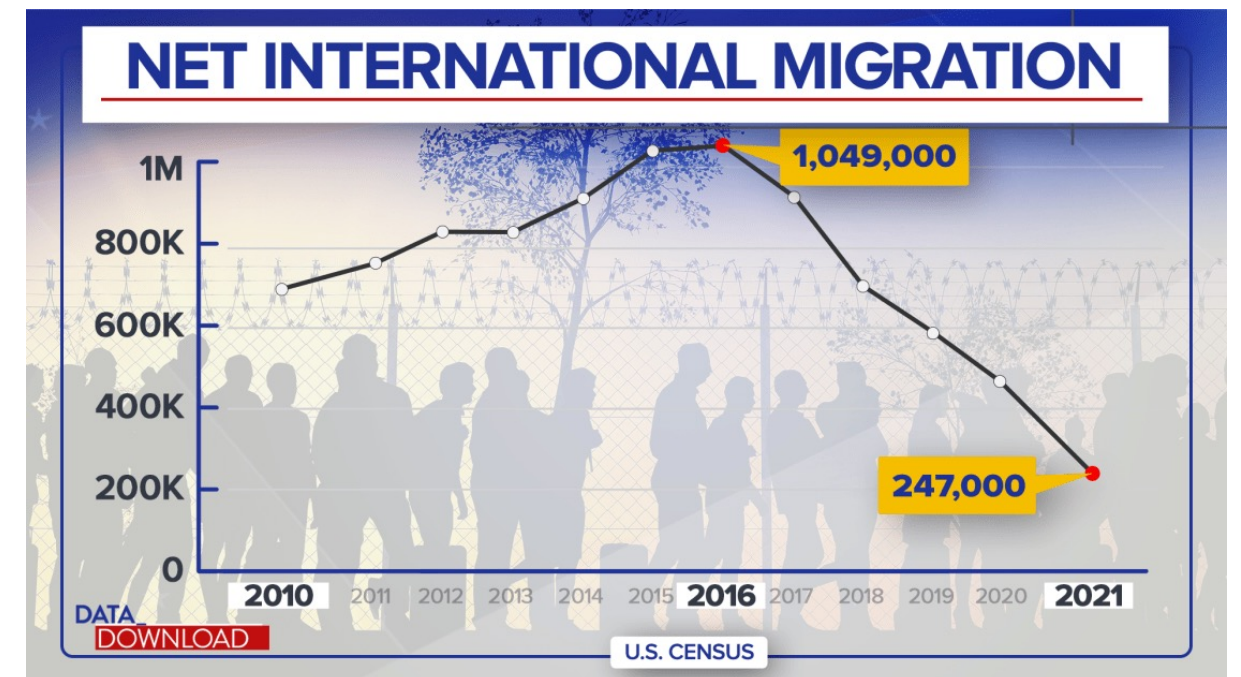
The New York Times

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## Factory Jobs Are Booming Like It's the 1970s

U.S. manufacturing is experiencing a rebound, with companies adding workers amid high consumer demand for products.





# TALENT STRATEGY IS COMPANY STRATEGY



Why should anyone work for you?

Money matters, but doesn't differentiate.  
Make it right, but don't inflate.

Culture of transparency is no longer aspirational....it's expected.

Do we know what our people need from us and why? Show how we care.

Context and history matters. Prove intention to change.

Do we have the right leaders for this world?  
How can we build and develop our people leaders for this new reality?



Embrace new talent models:

- flex workforce
- Gig economy
- GEN Z thinking is now contagious

Broaden the search – think national, and international. Who else could we partner with?

How can I grow the skill internally?

The old protocols for “competence” aren't sustainable in a fast changing and vastly different world.



How can we improve the environment? The process?

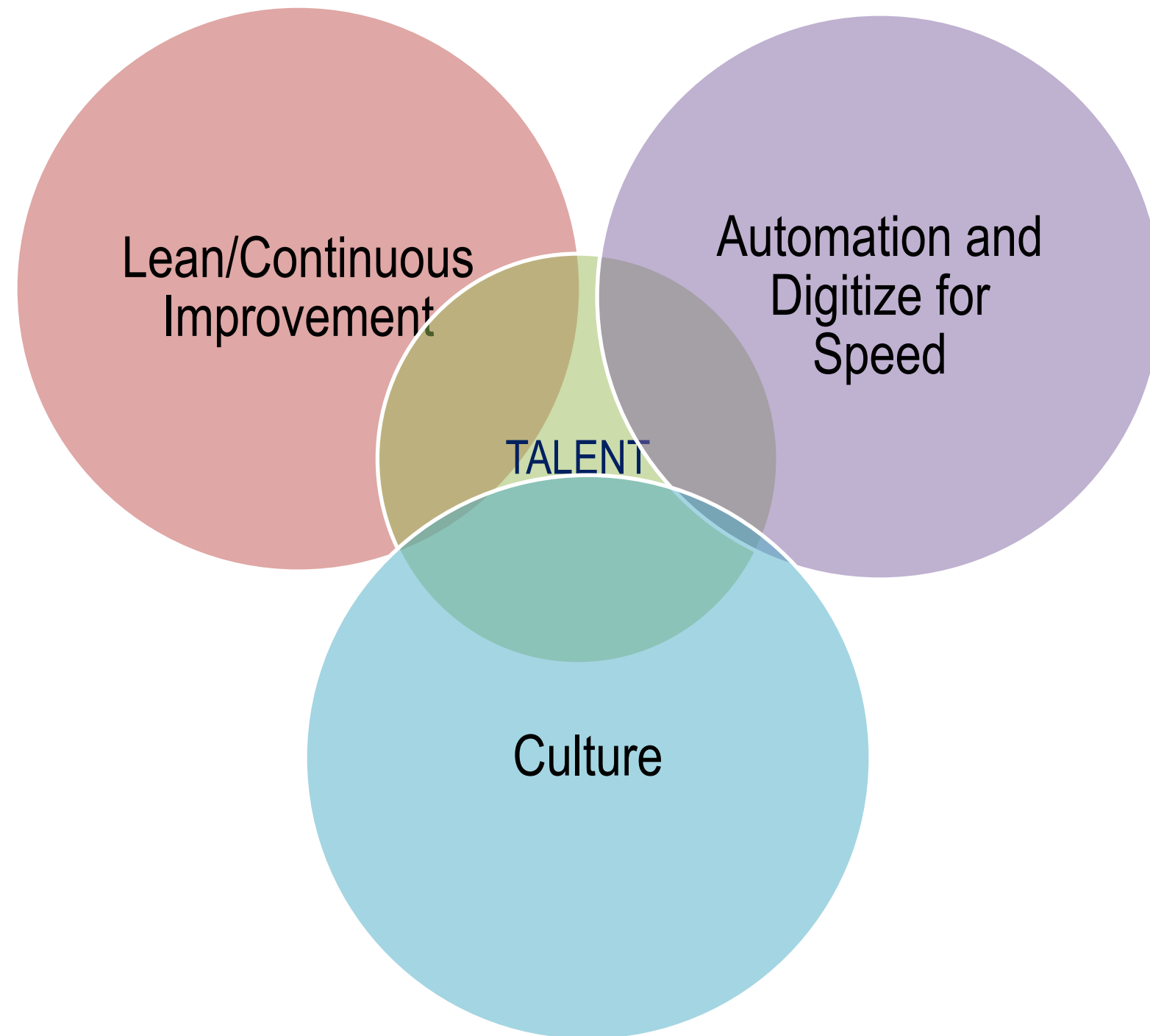
We cannot rely on human intervention as we did in the past....how can we automate? Digitize?

In a world that can surprise, how can we look ahead and adapt for our customers and our company?

The link between Demand/Production Planning and Workforce planning is critical. Do we have the right partnership? Are we as leaders aligned on the strategy?



# TALENT ALIGNMENT





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# POSTAL UPDATE

September 28<sup>th</sup>, 2022





# POSTAGE INCREASES JANUARY 2023

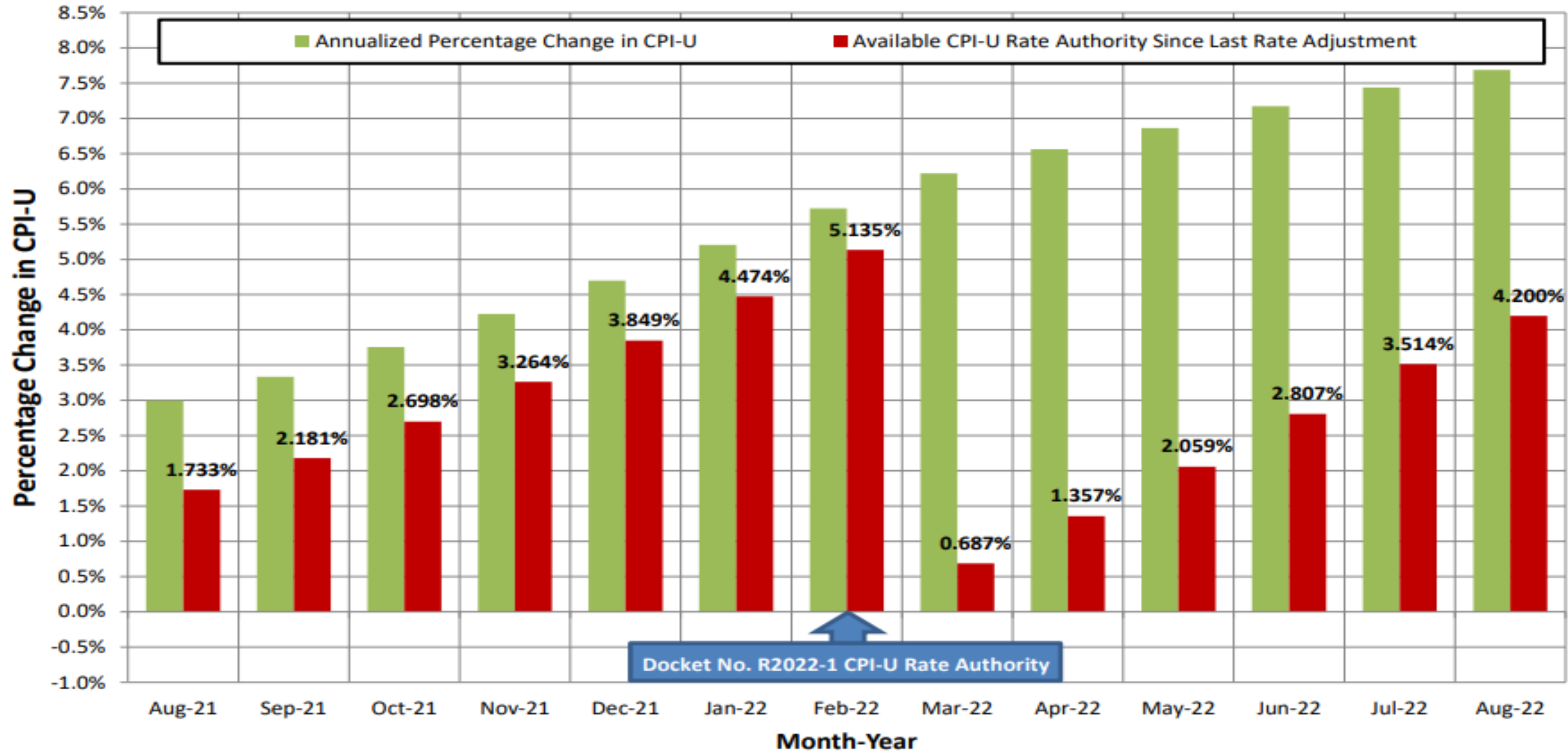
- Timing
  - Announcement
    - Expecting between October 7<sup>th</sup>, 2022 and October 12<sup>th</sup>, 2022
  - Implementation
    - January 22<sup>nd</sup>, 2023
    - July ?, 2023
- What can be included
  - January
    - 6 months CPI of March – August
    - Non compensatory products in compensatory classes must receive 2% over class average. (MM Flat, CR Flat, FC Flat)
  - July
    - 6 months CPI of September - February
    - Non compensatory products in compensatory classes must receive 2% over class average (MM Flat, CR Flat, FC Flat)
    - Density Factor ( $\leq 1\%$ )
    - Retirement Factor ( $\leq 1\%$ )
    - Optional 2% on Non Compensatory Classes (Periodicals & Package Services)





# WHAT TO EXPECT JANUARY 22<sup>ND</sup> 2023

**Annualized Percentage Change in CPI-U and Available CPI-U Rate Authority**  
August 2021 - August 2022



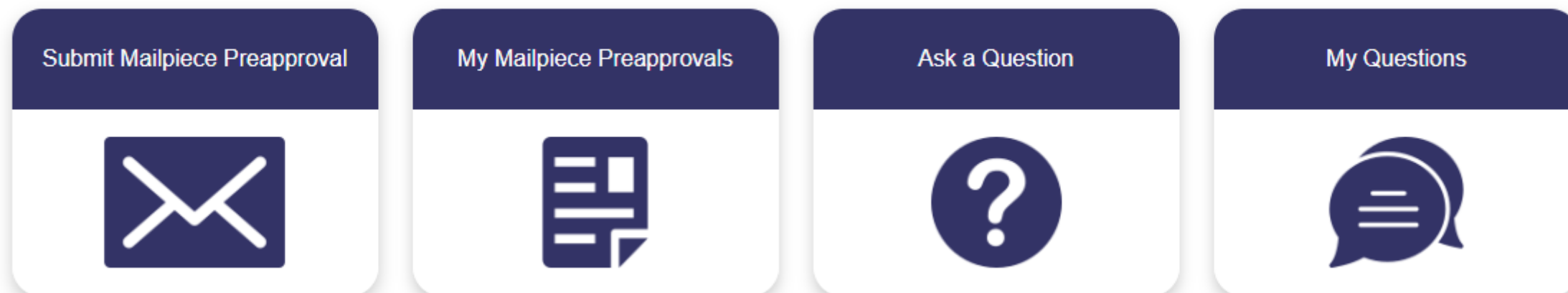
CPI-U annualized using a 12-month moving average. For a more detailed explanation of the calculation of the CPI-U rate authority, including partial year calculations, please see 39 CFR §3030.140-143.



# PROPOSED 2023 PROMOTIONS

- **Tactile, Sensory & Interactive**
  - Feb 1 - July 31st
  - First-Class, Marketing Mail
- **Emerging Technology & Mobile Shopping**
  - May 1 - Nov 30th
  - First-Class, Marketing Mail
- **Informed Delivery**
  - Aug 1 - Dec 31st
  - First-Class, Marketing Mail
- **Personalized Color Transpromo**
  - Feb 1 - July 31st
  - First-Class (will include incentive for CRM/BRM)
- **NEW - Reply Mail IMBA**
  - July 1 - Dec 31st
  - First-Class
- **NEW - Retarget**
  - Sep 1 - Nov 30th
  - First-Class postcard

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# NETWORK REDESIGN

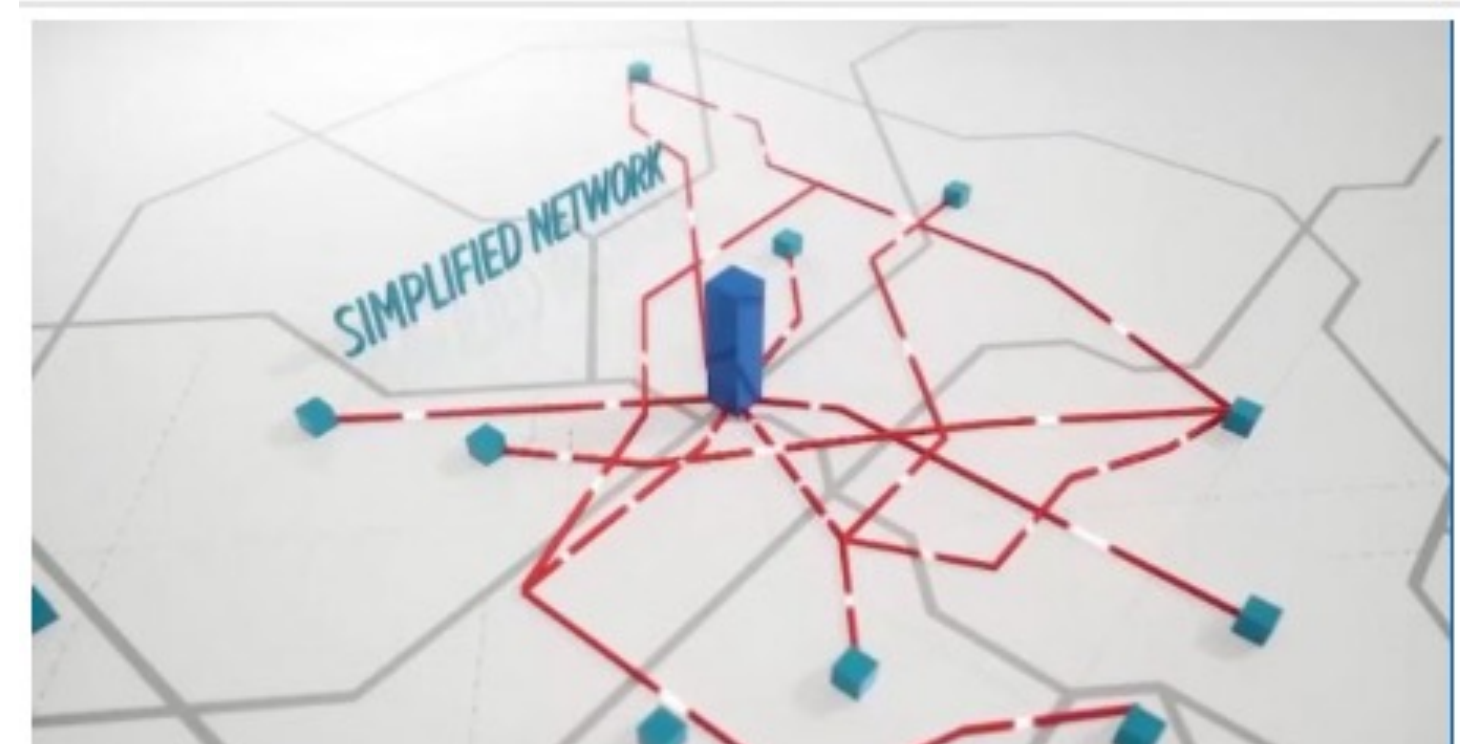
- Per USPS “As part of a massive redesign of the postal processing, transportation, and delivery infrastructure, systematic replacement of many existing facilities will dramatically improve working environments, while improving service performance and operational efficiency.”
  - The current footprint of where facilities are located is too widely dispersed, especially around the country’s major metropolitan areas
  - Centralizing all metro-area processing operations in a single building
  - Plans include new or modified regional centers connected to newly specified local operations in existing facilities

Source: <https://about.usps.com/resources/eaglemag/em20220802.pdf>

Video from PMG on new plan [about.usps.com/video/NPF2022Keynote.mp4](https://about.usps.com/video/NPF2022Keynote.mp4).



THE OVERLY COMPLICATED CURRENT SYSTEM



THE SIMPLIFIED NETWORK



QUESTIONS?

# Transportation Update

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Paper, Labor, and Supply Chain Logistics Market Update

September 28, 2022

Download slides at [www.ftrintel.com/lsc2022](http://www.ftrintel.com/lsc2022)

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LSC Postal Blog:



SCAN ME

Register for our next webinar about the anticipated USPS price increase proposal on October 27<sup>th</sup>, 12 PM:

