

00;00;08;00 - 00;00;29;12

Speaker 1

Hello. I'm JP Ducasse from the US Postal Service Office of Inspector General. And welcome to our podcast. Today my colleague Emily Baldwin and I will be highlighting some of the findings in our recently released White Paper Inflation and the U.S. Postal Service.

00;00;30;01 - 00;00;46;29

Speaker 2

Thanks, JP. In the first few months of 2022, the US experienced the highest inflation rate since the early 1980s. Multiple causes have been cited from elevated consumer demand and supply chain disruptions resulting from the COVID 19 pandemic to commodity shocks from the war in Ukraine.

00;00;47;08 - 00;01;09;22

Speaker 1

Absolutely, Emily. Inflation impacts just about every aspect of the economy. Businesses as well as individual households. And since the Postal Service is required to generate its own revenue, inflation is certainly a concern for the nation's mail system, isn't it?

00;01;10;02 - 00;01;19;29

Speaker 2

Absolutely. But inflation affects the Postal Service in different ways, which is why there's no simple answer to the question, "What is the impact of inflation on the Postal Service?"

00;01;20;25 - 00;01;32;09

Speaker 1

That's a tough question. For instance, it depends on the category of costs you are talking about or which particular postal product you are looking at.

00;01;32;18 - 00;01;56;20

Speaker 2

Exactly. JP. That's why for this paper we divided cost into three categories. First, labor costs. Second, retirement benefits and worker's compensation costs. And third, costs for purchased supplies and services. So let's take a look at labor costs for a minute. Cost of living or COLA increases can raise costs considerably because contracts with unions peg colas to the inflation rate.

00;01;57;04 - 00;02;00;27

Speaker 2

On the other hand, COLAs increase wages less than inflation does.

00;02;01;14 - 00;02;44;20

Speaker 1

Right, and only about 72% of USPS employees receive a COLA. So in the end, both USPS and the Postal Union are unhappy with high inflation, but for different reasons. Wage increases that do not keep up with inflation may contribute to employee turnover, and turnover increases costs associated with replacing workers who leave for better pay elsewhere.

From fiscal year 2020 to fiscal year 2021, the attrition rate for non-career postal employees climbed from 40% to 55%.

00;02;45;07 - 00;03;02;05

Speaker 2

That's right. And you see a similar indirect impact involving cost associated with employee benefits. For example, rising premiums for health insurance means both the employer and the employee will be paying more. The same goes for any other benefits the employer pays as a percentage of wages.

00;03;02;17 - 00;03;08;28

Speaker 1

Sure. And some benefit expenses aren't under the Postal Service's direct control.

00;03;09;12 - 00;03;19;26

Speaker 2

Yeah, JP. Like retirement benefit costs. The percentage of payroll that USPS must set aside each year to fund them is set by the Office of Personnel Management, not the Postal Service.

00;03;20;08 - 00;03;42;28

Speaker 1

Exactly, Emily. That's getting us into our second category. Retirement benefits and worker's compensation costs. Worker's comp costs go up when inflation drives up. Costs of medical care, which includes prescription drugs and physical therapy in addition to treatments and surgeries.

00;03;43;09 - 00;03;48;07

Speaker 2

That's interesting, JP. And what about our third category, purchase supplies and services?

00;03;48;22 - 00;04;05;06

Speaker 1

Well, it's easy to see the impact of inflation when you go to the grocery store, you know, right away just how much more you're paying for that half gallon of milk than you did just a week or so ago. But it's not so simple for the Postal Service, is it?

00;04;05;14 - 00;04;17;10

Speaker 2

It really isn't, J.P.. For example, USPS buys goods and services through contracts, so it's the terms of the contract that determine the immediacy of inflation's impacts on Postal Service's cost.

00;04;17;24 - 00;04;20;01

Speaker 1

Interesting. How also, Emily?

00;04;20;13 - 00;04;36;07

Speaker 2

Well, take highway contract rates or HCR, for example, which the Postal Service enters into with trucking companies for transporting mail. HCRs allow for monthly adjustments to compensate for changes in fuel costs. So the Postal Service will feel that impact very quickly.

00;04;36;26 - 00;04;40;28

Speaker 1

So different contracts have different terms, right?

00;04;41;11 - 00;04;56;26

Speaker 2

There are several types of contracts for goods or services that'll adjust for price changes only once a year. When it comes to property that USPS sometimes leases, those terms are renewed only every five years. So any impact of inflation on rents will not be felt in the short term.

00;04;57;11 - 00;05;29;06

Speaker 1

Then there are costs that are less obvious. I'm thinking of the Postal Service's statutory borrowing limit of \$15 billion. \$15 billion is a lot of money to be sure. But that limit has been the same for more than 20 years. No increase at all. So what we see is that inflation has eroded the real value of that borrowing limit. \$15 billion buys you less today than it did 20 years ago.

00;05;29;22 - 00;05;53;05

Speaker 2

That's right, JP. Lastly, price increases for market dominant products such as First-Class Mail are directly tied to the CPI. You also known as the Consumer Price Index for all urban consumers. That's the index that measures inflation. Economists call this the price cap. But since 2020, the Postal Service is allowed to increase prices above that price cap only when certain conditions are met.

00;05;53;24 - 00;06;00;12

Speaker 1

So we came to the conclusion it really is a mixed bag. The impact of inflation on the postal Service.

00;06;01;03 - 00;06;08;06

Speaker 2

Absolutely, JP. We've really made a point in the paper to identify and describe the effects and their individual characteristics.

00;06;08;21 - 00;06;21;21

Speaker 1

Exactly Emily, that's a great point. We want people to make their own judgment. So please go to our website to get the full story. WWW dot USPSOIG, dot gov. Anything else?

00;06;22;29 - 00;06;25;28

Speaker 2

I think that's it, JP. Thank you all so much for listening.

00;06;26;23 - 00;06;29;14

Speaker 1

Yes, thank you.