

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TOLLEY
TO DMA INTERROGATORIES DMA/USPS -T7-1 - 7
(November 7, 2001)

The United States Postal Service hereby provides the response of witness Tolley to the following interrogatories of Direct Marketing Association: DMA/USPS-T7-1 - 7, filed on October 24, 2001. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:



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November 7, 2001

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
TO INTERROGATORIES OF DMA

DMA/USPS-T7-1 On page 8 of your testimony you say, "A third factor considered is income. For some mail categories, the impact of changes in income on volume is decomposed into separate effects of long-term and short-term changes in income. The effect of long-term growth in real income per adult on mail volume is projected by combining the long-term income elasticity of demand (the percentage increase in volume resulting from a 1 percent increase in real long-term income per adult) for each mail category with the projected percentage increase in real long-term income."

(a) Please confirm that the measure of long term income for the fourth quarter of 1999 through the first quarter of 2005 that you use in estimating volumes appears in Table 124-32 of USPS-LR-J-124 in the column captioned "YD96PERM".

(b) Please confirm that the figures in the above-cited column are in thousands of dollars. If you can not confirm, please provide the units of measurement for these figures.

(c) Please provide this series in an Excel spreadsheet for the time period 1940 through the third quarter of 1999.

RESPONSE:

- a. Confirmed.
- b. Long-run income is expressed in thousands of 1996 dollars per adult.
- c. Data from 1970 through the third quarter of 1999 may be found in the file LR-J-127.xls, which was filed with Library Reference USPS-LR-J-127. Data prior to 1970 have not been compiled and are outside the scope of my research.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
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DMA/USPS-T7-2 Please refer to USPS-LR-J-124, Table 124-32 and to page 8 of your testimony where you state, "The effect of short-term income changes due to business fluctuations is projected by combining the short-term income elasticity with the projected change in short-term income between the Base Year and the Test Year."

- (a) Please confirm that in projecting volumes you use the column captioned "UCAP" in this table to measure "projected change in short-term income."
- (b) Please provide the units of measurement for the numbers in this column.
- (c) Please provide this series in an Excel spreadsheet for the time period 1940 through the third quarter of 1999.

RESPONSE:

- a. Confirmed.
- b. UCAP is expressed as a percentage of manufacturing capacity that is utilized in the given time period.
- c. Please see my response to DMA/USPS-T7-1.c.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
TO INTERROGATORIES OF DMA**

DMA/USPS-T7-3 Please refer to USPS-LR-J-124, Table 124-32 and to page 100 of your testimony where you state, "Since direct mail is sent to encourage households to make purchases, advertisers often base their mailing decisions on expected levels of retail sales. Therefore, real retail sales per adult are included in the econometric analysis of Standard volumes. The estimated elasticity of Standard Regular volume with respect to retail sales is 0.700."

- (a) Please confirm that in projecting volumes you use the column captioned "STR96C" in this table to measure retail sales.
- (b) Please provide the units of measurement for the numbers in this column.
- (c) Please provide this series in an Excel spreadsheet for the time period 1940 through the third quarter of 1999.

RESPONSE:

- a. Confirmed.
- b. Retail sales are expressed in thousands of 1996 dollars per adult.
- c. Please see my response to DMA/USPS-T7-1.c.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
TO INTERROGATORIES OF DMA**

DMA/USPS-T7-4 Please refer to USPS-LR-J-124, Table 124-32 and to page 100 of your testimony where you state, "The volume of advertising mail depends on other costs beyond postage. The price of direct-mail advertising is calculated by the Bureau of Labor Statistics by surveying print shops regarding revenue and quantity of advertising printing. It is estimated that a 1 percent increase in the real price of direct mail advertising leads to a 1.006 percent decline in the volume of Standard Regular mail."

(a) Please confirm that in projecting volumes you use the column captioned "WP_ADVPR" in this table to measure the real wholesale price of direct-mail advertising.

(b) Please provide the units of measurement for the numbers in this column.

(c) Please provide this series in an Excel spreadsheet for the time period 1940 through the third quarter of 1999.

RESPONSE:

- a. Confirmed.
- b. Direct-mail advertising is expressed as an index, equal to one in 1982, deflated by a price index equal to one in 1996.
- c. Direct-mail advertising data are only available beginning in June 1982. Data from the third quarter of 1982 through the third quarter of 1999 may be found in the Excel file LR-J-127.xls, which was filed with Library Reference USPS-LR-J-127.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
TO INTERROGATORIES OF DMA

DMA/USPS-T7-5 Please refer to USPS-LR-J-124, Table 124-32 and to page 119 of your testimony where you state, "Real consumption expenditures per adult increased 18.6 percent of the 5 years. It is estimated that a 1 percent increase in this variable lead to a 1.019 percent increase in Standard Nonprofit volumes."

- (a) Please confirm that in projecting volumes you use the column captioned "C96C" in this table to measure real consumption expenditures per adult.
- (b) Please provide the units of measurement for the numbers in this column.
- (c) Please provide this series in an Excel spreadsheet for the time period 1940 through the third quarter of 1999.

RESPONSE:

- a. Confirmed.
- b. Consumption is expressed in thousands of 1996 dollars per adult.
- c. Please see my response to DMA/USPS-T7-1.c.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
TO INTERROGATORIES OF DMA**

DMA/USPS-T7-6 Please refer to USPS-LR-J-124, Table 124-32 and to page 88 of your testimony where you state, "It is estimated that a 1 percent decrease in the wholesale price of pulp and paper index leads to a 0.141 percent increase in the volume of Regular Rate mail."

- (a) Please confirm that in projecting volumes you use the column captioned "WPIP" in this table to measure the wholesale price of pulp and paper.
- (b) Please provide the units of measurement for the numbers in this column.
- (c) Please provide this series in an Excel spreadsheet for the time period 1940 through the third quarter of 1999.

RESPONSE:

- a. Confirmed.
- b. The price of pulp and paper is expressed as an index, equal to one in 1982, deflated by a price index equal to one in 1996.
- c. Please see my response to DMA/USPS-T7-1.c.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
TO INTERROGATORIES OF DMA**

DMA/USPS-T7-7 Please refer to USPS-LR-J-124, Table 124-32 and to page 100 of your testimony where you state, "Newspaper advertising is one of the most important alternatives to direct mail...It is estimated that a 1 percent increase in the real price of newspaper advertising leads to a 0.135 percent increase in the volume of Standard Regular mail."

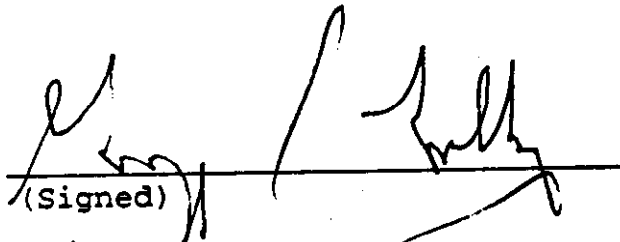
- (a) Please confirm that in projecting volumes you use the column captioned "WP_NWS" in this table to measure the real price of newspaper advertising.
- (b) Please provide the units of measurement for the numbers in this column.
- (c) Please provide this series in an Excel spreadsheet for the time period 1940 through the third quarter of 1999.

RESPONSE:

- a. Confirmed.
- b. The price of newspaper advertising is expressed as an index, equal to one in 1982, deflated by a price index equal to one in 1996.
- c. Newspaper advertising price data are only available beginning in December 1980. Data from the first quarter of 1981 through the third quarter of 1999 may be found in the Excel file LR-J-127.xls, which was filed with Library Reference USPS-LR-J-127.

DECLARATION

I, George Tolley, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.



(Signed)
11-05-01

(Date)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


Eric P. Koetting

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