

## **2005 Mail Volume Forecast Scenarios**

### **EXECUTIVE SUMMARY**

This paper presents three volume forecast scenarios for the fiscal years running from 2005 through 2010: a baseline scenario, a pessimistic scenario, and an optimistic scenario. These different volume forecasts are derived from analysis of the impacts of key drivers on mail volume: the economy, electronic diversion, and the behavior of postal competitors. The pessimistic and optimistic scenarios vary the projections of the key volume drivers from the baseline projections. These alternative scenarios are designed to give a plausible range of volumes over the next five years, given the different scenario assumptions. More or less extreme assumptions would bring about more or less extreme volume ranges. All three forecasts are based on the Postal Service's 2005Q3, which uses postal volume data through 2005Q3 and economic data available as of July 2005.

The baseline forecast is the most likely scenario. The second most likely scenario is the pessimistic forecast, which assumes that economic factors contribute less to mail volume growth and electronic diversion causes more mail volume decline than is projected in the baseline forecast. The least likely scenario is the optimistic forecast, which assumes greater positive contribution from the economy and lower volume losses from electronic diversion.

For example, the baseline scenario assumes that electronic diversion will remove approximately 3.5 billion pieces of First-Class Mail volume per year, consistent with the estimated diversion impact over the past few years. The baseline scenario also assumes that Standard Mail will remain largely unaffected by electronic diversion for the next few years, but by 2009, competition from the Internet and other new media will begin diverting about 1.0 billion pieces of Standard Mail annually.

In contrast, the pessimistic scenario assumes that the diversion of First-Class Mail will increase to about 4.5 billion pieces per year and that approximately 2.0 billion pieces of Standard Mail will be diverted annually beginning in 2009. The optimistic scenario assumes that the diversion of First-Class Mail will decline to about 2.5 billion pieces per year and that Standard Mail will continue to be unaffected to a significant degree by electronic diversion.

Regarding the economy, two key drivers of mail volume are employment and real (inflation-adjusted) retail sales. The baseline scenario uses Global Insight's July 2005 forecasts. This forecast projects that from 2005 through 2010, between 1.0 and 1.5 million jobs will be added to the economy each year and real retail sales growth will average 2.3 percent per year. In the pessimistic volume forecast scenario, employment grows moderately in 2006 and then declines in 2007, consistent with the onset of a mild recession, certainly a plausible event over the

next few years. By 2010, employment recovers to its 2006 level, meaning that the pessimistic economic scenario projects little net increase in employment over the next five years. The pessimistic scenario also projects that over the five-year period from 2005 through 2010, real retail sales growth averages just 0.5 percent per year. Finally, the optimistic scenario assumes that employment grows by an average of more than 2.0 million jobs per year and that real retail sales increase by 4.1 percent per year between 2005 and 2010.

With respect to competitor behavior, the baseline scenario assumes that trends that have developed in the competitive postal markets will continue as they have into the future. These markets include Priority Mail, Express Mail, Standard Mail, and Parcel Post. The pessimistic scenario assumes these markets become even more competitive to the detriment of postal volumes. The optimistic scenario assumes these markets become less competitive, benefiting postal volumes.

All three scenarios assume implementation of the proposed R2005-1 rates on January 1, 2006. In addition, the three scenarios assume a 5.5 percent across-the-board rate increase occurring January 1, 2007 followed by annual across-the-board rate increases of 3.0 percent on January 1, 2008, 2009, and 2010. These rate increases are not projections of future rates but are included to provide a more realistic view of future volumes than would result from the assumption of no rate increases following R2005-1. The 3.0 percent annual rate increases are also consistent with what might occur under price cap regulation.

Table ES-1 presents the baseline, pessimistic, and optimistic scenario forecasts.

**Table ES-1: Mail Volume Forecast Scenarios, FY2005-2010 (billions pieces)**

Scenario	Class	2003 <i>actual</i>	2004 <i>actual</i>	2005	2006	2007	2008	2009	2010
Baseline	First-Class	99.1	97.9	98.1	95.4	92.0	89.9	87.5	85.5
	Standard	90.5	95.6	100.7	104.4	106.3	109.0	110.6	111.9
	All Other	12.6	12.6	12.8	12.9	12.7	12.7	12.5	12.6
	TOTAL	202.2	206.1	211.6	212.7	211.0	211.6	210.6	210.0
Pessimistic	First-Class	99.1	97.9	98.0	94.2	89.5	86.1	82.0	78.6
	Standard	90.5	95.6	100.6	102.9	102.4	102.7	101.6	100.7
	All Other	12.6	12.6	12.8	12.7	12.1	11.8	11.4	11.2
	TOTAL	202.2	206.1	211.4	209.6	204.0	200.6	195.0	190.5
Optimistic	First-Class	99.1	97.9	98.4	98.1	96.8	96.7	96.0	95.4
	Standard	90.5	95.6	100.8	105.9	109.6	114.4	118.5	122.1
	All Other	12.6	12.6	12.8	13.0	13.1	13.4	13.5	13.8
	TOTAL	202.2	206.1	212.0	217.0	219.5	224.5	228.0	231.3

In the baseline scenario, total mail volume is projected to increase in 2006, but then decline so that total mail volume in 2010 is projected to be 210.0 billion pieces, 1.6 billion pieces lower than volume in 2005. In the pessimistic scenario, total volume is projected to decline consistently, falling to 190.5 billion pieces in 2010, an average annual decline of two percent over the next five year period. Only in the optimistic scenario is total mail volume projected to grow continually over the next five years, with the optimistic projection of 2010 total mail volume of 231.3 million pieces. Nonetheless, the projected growth rate of volume in the optimistic scenario is just 1.8 percent per year, barely greater than the projected growth in population or postal delivery points over the next five years

The remainder of this report is organized as follows. Section I presents an overview of three scenario forecasts. Section II presents a discussion of the scenario forecasts of individual major mail products. In this section, the assumptions underlying the three scenarios are described as they pertain to each mail product. Section III provides a detailed description of the approach used to develop the assumptions underlying each volume forecast scenario. Section IV presents a comparison of the current baseline, pessimistic, and optimistic forecasts with the 2005Q1 forecasts, which were used in the R2005-1 rate case and the 2004Q3 forecasts, used in the 2005 Integrated Financial Plan. An appendix to this document presents the current baseline, pessimistic, and optimistic forecasts through 2014.

## I. Forecast Overview

### a. Baseline Forecast (Most Likely)

The baseline forecast is the most probable scenario, based on the view that trends that have been emerging over the past few years are likely to continue. The current baseline forecasts an increase in total mail volume from 211.6 billion pieces in FY 2005 to 212.7 billion pieces in FY 2006. By 2010, however, volume is projected to decline to 210.0 billion pieces in the baseline scenario, a lower volume than is projected for 2005.

The current baseline forecast is for First-Class Mail volume to fall from 98.1 billion pieces in 2005 to 85.5 billion pieces in 2010. The forecasted average decline of 2.7 percent per year is driven by electronic diversion, as well as the negative impact of higher postal rates assumed in the 2005Q1 forecast. Standard Mail volume, on the other hand, is projected to increase from 100.7 billion pieces in 2005 to 111.9 billion pieces in 2010, an average increase of 2.1 percent per year. Standard Mail volume is expected to benefit from the consistent economic growth projected by Global Insight in the baseline scenario.

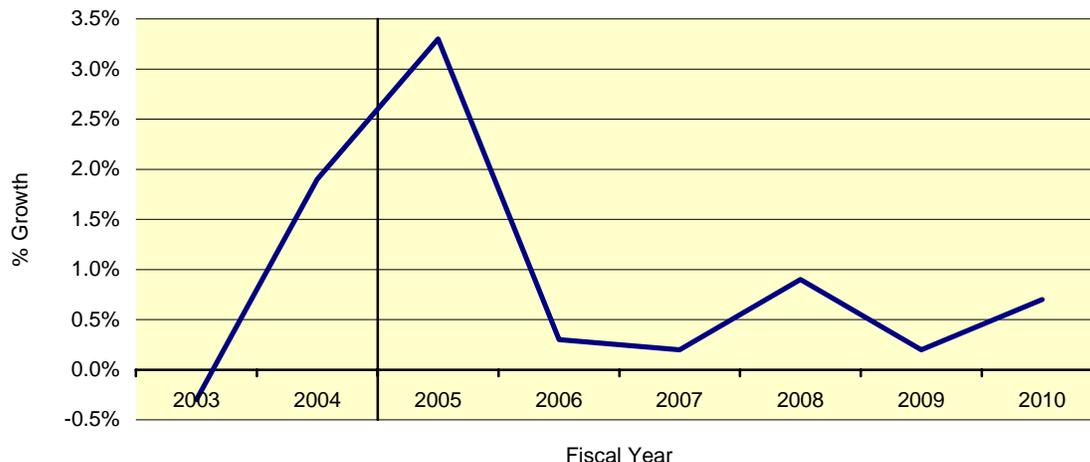
The combined volumes of all other mail categories are projected to remain roughly constant over the next five years. Priority and Express Mail volume, for example, is projected to be the same in 2010 as in 2005. Periodicals Mail volumes, on the other hand, are projected to decline from 9.1 billion pieces in 2005 to 8.7 billion pieces in 2010, consistent with the gradual decline that has been occurring in this mail class over the past decade. The baseline scenario projects that Package Services mail volume will show modest growth over the next five years, while International Mail volumes are projected to decline.

Table 1 shows the baseline scenario volume forecasts for the major classes of mail, and Graph 1 shows SPLY growth for total mail volume.

**Table 1: Baseline Forecast**

<b>Volumes (in billions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
First-Class	99.1	97.9	98.1	95.4	92.0	89.9	87.5	85.5
Priority & Express	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Periodicals	9.3	9.1	9.1	9.1	9.0	9.0	8.8	8.7
Standard	90.5	95.6	100.7	104.4	106.3	109.0	110.6	111.9
Package Services	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.3
International	0.8	0.8	0.9	0.9	0.8	0.8	0.8	0.8
<b>Total</b>	<b>202.2</b>	<b>206.1</b>	<b>211.6</b>	<b>212.7</b>	<b>211.0</b>	<b>211.6</b>	<b>210.6</b>	<b>210.0</b>
<b>% Change over SPLY</b>								
First-Class	-3.2	-1.1	0.2	-2.8	-3.6	-2.3	-2.7	-2.2
Priority & Express	-13.6	-1.4	3.8	0.0	-3.4	1.0	1.1	1.5
Periodicals	-3.8	-2.0	-0.2	0.0	-1.3	-0.5	-1.7	-1.1
Standard	3.7	5.6	5.3	3.8	1.8	2.5	1.5	1.2
Package Services	5.0	0.3	3.7	2.8	0.2	1.8	1.2	1.8
International	-10.9	4.8	1.9	-1.1	-2.3	0.0	-0.4	-0.2
<b>Total</b>	<b>-0.3</b>	<b>1.9</b>	<b>2.6</b>	<b>0.5</b>	<b>-0.8</b>	<b>0.3</b>	<b>-0.5</b>	<b>-0.3</b>

**Graph 1. Baseline Forecast  
Total Mail Growth Over SPLY**



### **b. Pessimistic Scenario (Next Most Likely)**

The pessimistic scenario forecast, which combines the pessimistic projections of the economy, electronic diversion, and competitor pricing is considered the next most likely scenario to the baseline. The pessimistic scenario forecast is for total mail volume to fall from 211.4 billion pieces in 2005 to 190.5 billion pieces in 2010, a decline of about 2.0 percent per year. First-Class Mail is projected to fall from 98.0 billion pieces to 78.6 billion pieces, an average annual decline of 4.3 percent. Most of this decline is due to the pessimistic projection of greater electronic diversion. Standard Mail is affected primarily by the pessimistic economic projections included in this scenario as well as the assumption that volumes will begin to be negatively affected by the Internet and other new media. The pessimistic projection is for total Standard Mail in 2010 (100.7 billion pieces) to be essentially the same as in 2005 (100.6 billion pieces).

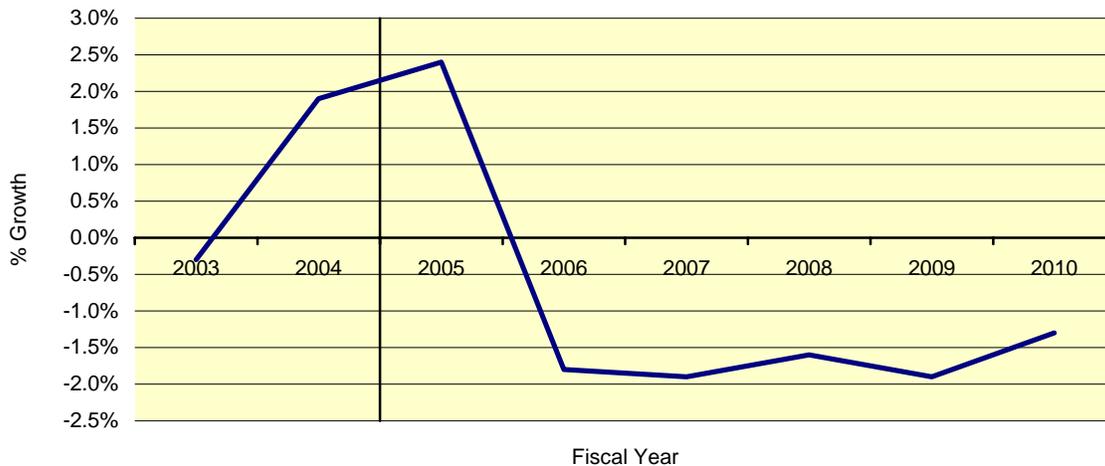
Elsewhere, the pessimistic scenario projects that the combined volume of Priority and Express Mail will decline by 17 percent over the next five years while Periodicals Mail volume is projected to decline 15 percent. The pessimistic scenario also projects that Package Services mail volume will remain flat between 2005 and 2010 and International Mail volume will decline a total of 13 percent over the next five years.

Table 2 and Graph 2 present the pessimistic projections of the volumes of major classes.

**Table 2: Pessimistic Scenario  
Slower Economy, Greater Electronic Diversion**

<b>Volumes (in billions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
First-Class	99.1	97.9	98.0	94.2	89.5	86.1	82.0	78.6
Priority & Express	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Periodicals	9.3	9.1	9.1	8.9	8.6	8.3	8.0	7.8
Standard	90.5	95.6	100.6	102.9	102.4	102.7	101.6	100.7
Package Services	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
International	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.7
<b>Total</b>	<b>202.2</b>	<b>206.1</b>	<b>211.4</b>	<b>209.6</b>	<b>204.0</b>	<b>200.6</b>	<b>195.0</b>	<b>190.5</b>
<b>% Change over SPLY</b>								
First-Class	-3.2	-1.1	0.1	-3.9	-5.0	-3.7	-4.8	-4.2
Priority & Express	-13.6	-1.4	3.5	-2.7	-7.0	-3.3	-3.0	-2.4
Periodicals	-3.8	-2.0	-0.4	-1.8	-3.7	-3.2	-4.0	-2.9
Standard	3.7	5.6	5.3	2.3	-0.4	0.3	-1.0	-0.9
Package Services	5.0	0.3	3.5	1.6	-1.7	-0.1	-0.5	0.4
International	-10.9	4.8	1.5	-3.9	-4.8	-2.3	-1.9	-1.0
<b>Total</b>	<b>-0.3</b>	<b>1.9</b>	<b>2.5</b>	<b>-0.8</b>	<b>-2.7</b>	<b>-1.7</b>	<b>-2.8</b>	<b>-2.3</b>

**Graph 2. Pessimistic Scenario  
Total Mail Growth Over SPLY**



Compared to the baseline scenario presented earlier, the pessimistic scenario projects that total mail volume 2010 will be 19.5 billion pieces, or about nine percent, less. The pessimistic projection of First-Class Mail volume in 2010 is 6.9 billion pieces below the baseline projection. The pessimistic projection of Standard Mail volume in 2010 is 11.2 billion pieces below the baseline projection for that year.

### c. Optimistic Scenario (Least Likely)

The optimistic scenario assumes that the economy performs better than is projected in the baseline scenario, and further assumes a slowdown in the pace of electronic diversion. Since this diversion assumption appears unlikely, the optimistic scenario forecast is considered the least likely of the three forecasts presented in this paper.

In the optimistic scenario, total mail volume is projected to increase from 212.0 billion pieces in 2005 to 231.3 billion pieces in 2010, an average annual increase of 1.8 percent. First-Class Mail is projected to decrease even in this optimistic scenario, falling from 98.5 billion pieces in 2005 to 95.4 billion pieces in 2010. The volume of Standard Mail is mainly affected by the stronger economy assumed in the optimistic scenario. Standard Mail is projected to rise from 100.8 billion pieces in 2005 to 122.1 billion in 2010, an average annual gain of almost four percent.

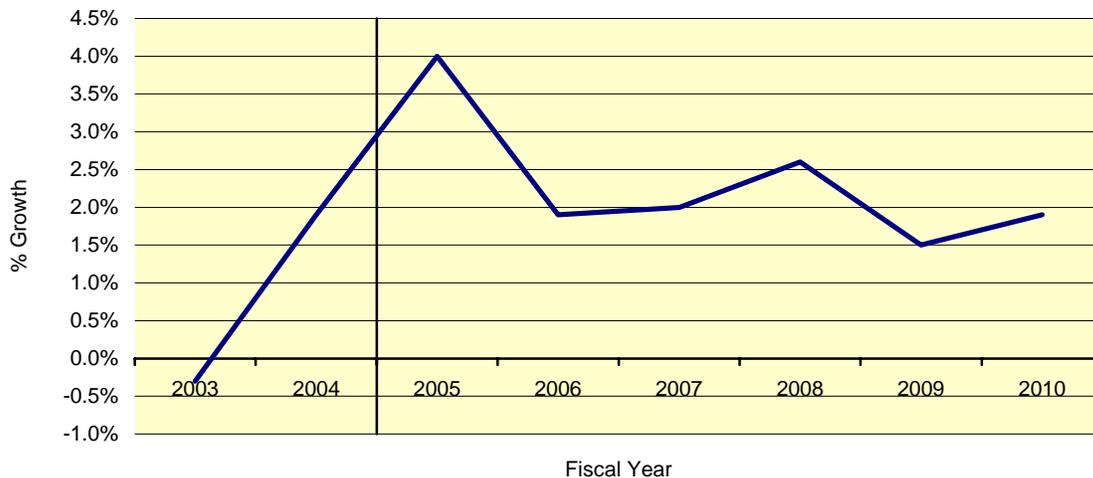
The optimistic scenario projects that the combined volumes of Priority and Express Mail will increase 15 percent over the next five years. This increase is driven by the optimistic scenario assumption that competitors will raise their prices faster than inflation, causing a shift toward the postal products. The volume of Periodicals Mail is projected to increase from 9.1 billion pieces in 2005 to 9.5 billion pieces in 2010 as the stronger economy projected in the optimistic scenario helps the magazine and newspaper industries. The optimistic scenario also projects that Package Services mail volume will grow by an average of 3.4 percent per year over the next five years, due to the stronger economy and a more favorable competitive environment. Finally, the optimistic scenario projects that International Mail volumes will increase.

Table 3 and Graph 3 show the optimistic scenario forecasts.

**Table 3: Optimistic Scenario  
Stronger Economy, Less Electronic Diversion**

Volumes (in billions)	2003	2004	2005	2006	2007	2008	2009	2010
First-Class	99.1	97.9	98.5	98.1	96.8	96.7	96.0	95.4
Priority & Express	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1
Periodicals	9.3	9.1	9.1	9.2	9.3	9.5	9.5	9.5
Standard	90.5	95.6	100.8	105.9	109.6	114.4	118.5	122.1
Package Services	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.4
International	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Total	202.2	206.1	212.0	217.0	219.5	224.5	228.0	231.3
<b>% Change over SPLY</b>								
First-Class	-3.2	-1.1	0.6	-0.4	-1.4	0.0	-0.8	-0.6
Priority & Express	-13.6	-1.4	4.0	1.7	-0.6	4.4	4.3	4.5
Periodicals	-3.8	-2.0	-0.1	1.2	0.6	1.9	0.2	0.4
Standard	3.7	5.6	5.4	5.1	3.6	4.3	3.6	3.1
Package Services	5.0	0.3	3.8	3.9	2.1	3.8	3.5	3.8
International	-10.9	4.8	2.3	1.9	0.4	2.4	1.2	1.3
Total	-0.3	1.9	2.9	2.4	1.2	2.3	1.6	1.4

**Graph 3. Optimistic Scenario  
Total Mail Growth Over SPLY**



Compared to the baseline forecast presented earlier, the optimistic forecast projects that total mail volume in 2010 will be 21.3 billion pieces, or ten percent, more. For First-Class Mail, the optimistic volume forecast for 2010 is 9.9 billion pieces greater than the baseline forecast, due mainly to a projected slowdown in the pace of electronic diversion, as well as greater benefit from stronger economic growth. The optimistic forecast of Standard Mail volume in 2010 is projected to be 10.2 billion pieces more than the baseline forecast for this year, with this difference being driven primarily by the stronger economy projected in the optimistic scenario and, to a lesser extent, by the optimistic assumption that Standard Mail will continue to be largely unaffected by electronic diversion.

## II. Forecasts of Major Mail Products

This section presents the baseline, pessimistic, and optimistic forecasts of the major mail products. For each product, the assumptions underlying the scenario forecasts are described and the impacts of these assumptions on volume are discussed.

### a. First-Class Single Piece Letters

Table 4 presents the baseline, pessimistic, and optimistic forecasts of First-Class single-piece letters. The baseline forecast assumes that trends that have developed in recent years will continue to effect single-piece volume as they have in the recent past. In particular, this scenario projects that electronic diversion will continue to reduce single-piece letter volume by between 2.0 and 2.5 billion pieces per year, as it has in the recent past. This scenario also uses Global Insight's July baseline economic forecast, which projects slow but steady growth in employment, the primary economic driver of single-piece volume.

In the baseline forecast, First-Class single-piece letter volume is projected to fall from 43.5 billion pieces in 2005 to 34.5 billion pieces in 2010, a total decline of 20 percent or an average of 4.5 percent per year. Note that this is a more rapid volume decline than occurred in 2004, but that was a year in which single-piece letter rates remained constant unlike the forecast period during which rates are assumed to increase.

**Table 4: First-Class Single-Piece Letter Forecasts**

<b>Volumes (in billions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	46.6	45.2	43.5	41.5	39.2	37.6	35.9	34.5
Pessimistic	46.6	45.2	43.5	41.4	38.9	37.3	34.8	32.8
Optimistic	46.6	45.2	43.6	42.1	40.3	39.3	37.8	36.6
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-5.5	-3.0	-3.7	-4.6	-5.6	-4.0	-4.6	-4.0
Pessimistic	-5.5	-3.0	-3.7	-4.8	-6.0	-4.3	-6.6	-6.0
Optimistic	-5.5	-3.0	-3.5	-3.4	-4.2	-2.6	-3.6	-3.4

The pessimistic forecast of single-piece letters is considered the next most likely forecast. It assumes that electronic diversion increases to between 2.5 and 3.0 billion pieces per year, about 0.5 billion more diversion than in the baseline scenario. The pessimistic scenario also assumes that employment declines in 2007, consistent with the onset of a mild recession, which further reduces single-piece letter volume.

In the pessimistic forecast, First-Class single-piece letter volume is projected to fall from 43.5 billion pieces in 2005 to 32.8 billion pieces in 2010, an average decline of 5.5 percent per year. The pessimistic forecast of single-piece letter volume in 2010 is about 1.7 billion pieces below the baseline.

The optimistic forecast of First-Class single-piece letter volume assumes a stronger economy and greater job growth than in the baseline forecast. It assumes somewhat less diversion than in the baseline on the “optimistic” assumption that much of the single-piece letter mail that can be diverted has already been diverted. The optimistic scenario also projects greater job growth with acts to add single-piece volume relative to the baseline

In the optimistic forecast, single-piece letter volume is projected to fall from 43.6 billion pieces in 2005 to 36.6 billion pieces in 2010, an average annual decline of 3.4 percent. Note, then, that even in the optimistic forecast, single-piece letter volume is projected to decline steadily

### b. First-Class Workshared Letters

Table 5 presents the baseline, pessimistic, and optimistic forecasts of First-Class workshared letters. In the most likely, baseline forecast, workshare volume is projected to decline gradually, falling from 49.0 billion pieces in 2005 to 45.5 billion pieces in 2010. Although workshare letter volume increased in 2005, this was a year in which postal rates were held constant and the economy grew by more than four percent. Going forward, postal rates are assumed to rise and Global Insight’s baseline forecast is for slower economic growth than what has been seen recently. Moreover, workshare volume declined from 2002 through 2004 indicating that electronic diversion and other market changes have been acting to reduce volume.

**Table 5: First-Class Workshared Letter Forecasts**

Volumes (in billions)	2003	2004	2005	2006	2007	2008	2009	2010
Baseline	47.3	47.3	49.0	48.3	47.3	46.7	46.0	45.5
Pessimistic	47.3	47.3	48.9	47.2	45.1	43.4	41.8	40.5
Optimistic	47.3	47.3	49.3	50.3	50.8	51.7	52.4	53.0
% Change over SPLY	2003	2004	2005	2006	2007	2008	2009	2010
Baseline	-0.8	0.1	3.6	-1.5	-2.2	-1.2	-1.5	-1.1
Pessimistic	-0.8	0.1	3.4	-3.5	-4.5	-3.7	-3.8	-3.2
Optimistic	-0.8	0.1	4.2	2.1	0.9	1.9	1.2	1.1

In the pessimistic forecast, the diversion of workshared letters to technological alternatives is projected to increase to almost 2.0 billion pieces per year instead of the 1.0 billion pieces of diversion included in the baseline forecast. The potential increase in diversion of workshare mail is based both on an analysis of recent volume trends and a realization that businesses are increasingly adopting strategies that would reduce their mailings and substitute electronic communications instead. The pace of this adoption may be greater than assumed in the baseline forecast. In addition, the pessimistic scenario projects a decline in retail sales per adult over the next five years and, as a result, the economy will act to reduce workshare volume in the pessimistic scenario.

As a result of these differences with the baseline scenario, the pessimistic scenario projects that workshared letter volume will fall from 48.9 billion pieces in 2005 to 40.5 billion pieces in 2010, a total decline of 17 percent. The pessimistic forecast of workshared letter volume in 2010 is 5.0 billion pieces below the baseline forecast.

The optimistic forecast of workshared letter volume is considered the least likely of the three forecasts. It assumes that the recent increase in workshare volume in 2005 reflects renewed strength in workshare volume, though not to the degree that was experienced in the late 1990s. Electronic diversion of workshared letter volumes is assumed to have a smaller negative impact on volume than is assumed in the baseline while the economy, as measured by growth in retail sales, adds considerably more to volume.

Therefore, as shown in Table 5, the optimistic scenario projects that workshared letter volume will increase from 49.3 billion pieces in 2005 to 53.0 billion pieces, an average growth rate of 1.5 percent per year. The optimistic forecast of workshared letter volume in 2010 is 7.5 billion pieces above the baseline forecast for that year.

### c. First-Class Cards

The analysis that underlies that baseline, pessimistic, and optimistic forecasts of First-Class cards is similar to what was described earlier for single-piece and workshared letters. In the baseline scenario, recent trends are expected to continue and electronic diversion will reduce First-Class cards volume at the same pace as in the recent past. In the pessimistic scenario, electronic diversion of First-Class cards is projected to increase. The optimistic scenario assumes the same pace of diversion as in the baseline, but includes more optimistic economic projections. However, because First-Class cards volume is not especially sensitive to the economy, the different economic scenarios have less of an impact on cards volume than on the volume of letters.

The baseline, pessimistic and optimistic forecasts of First-Class cards volume are shown in Table 6.

**Table 6: First-Class Cards Forecasts**

<b>Volumes (in billions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	5.2	5.4	5.6	5.6	5.5	5.6	5.6	5.6
Pessimistic	5.2	5.4	5.6	5.5	5.4	5.4	5.3	5.3
Optimistic	5.2	5.4	5.6	5.7	5.7	5.7	5.8	5.9
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-4.6	4.2	2.4	0.6	-1.2	0.6	0.0	0.4
Pessimistic	-4.6	4.2	2.3	-0.5	-2.2	-0.4	-0.9	-0.2
Optimistic	-4.6	4.2	2.6	1.7	-0.2	1.6	0.9	1.0

In the baseline forecast, First-Class cards volume is projected to remain near its current level of 5.6 billion pieces with higher postal rates and electronic diversion

offsetting the positive influence on volume that comes from an increase in population. In the pessimistic forecast, electronic diversion of First-Class cards increases and volume falls from 5.6 billion in 2005 to 5.3 billion pieces in 2010. The optimistic forecast projects an increase in cards volume to 5.9 billion pieces in 2010. This increase comes from an increase in the use of First-Class cards by advertisers as well as from a slowdown in the pace of electronic diversion.

#### d. Priority Mail

Table 7 presents the baseline, pessimistic and optimistic scenario forecasts of Priority Mail volumes. The scenarios provide a wider range of volumes for Priority Mail than it typical for most mail products. The wider range occurs because Priority Mail volumes are strongly affected by the prices, services, and marketing strategies of competitors UPS and FedEx. Given the constantly changing nature of the highly competitive package delivery market, there is a wide range of possible behaviors by UPS, FedEx, and other smaller delivery companies, creating the wide range of scenario volumes presented in Table 7.

In the baseline forecast, it is assumed that actions by UPS and FedEx neither add nor subtract volume from Priority Mail. This effect is reflected in the forecast by assuming that the competitors raise their rates at the same pace as inflation, leaving their real rates unchanged. In this baseline scenario, Priority Mail volume is projected to grow moderately over the next five years, rising from 882 million pieces in 2005 to 899 million pieces in 2010. The projected volume decline in 2007 is due to the increase in rates assumed in the baseline forecast.

**Table 7: Priority Mail Forecasts**

<b>Volumes (in millions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	860	849	882	883	857	870	883	899
Pessimistic	860	849	879	857	801	778	756	740
Optimistic	860	849	883	899	897	941	986	1,035
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-13.9	-1.3	3.9	0.2	-2.9	1.5	1.5	1.9
Pessimistic	-13.9	-1.3	3.6	-2.5	-6.6	-2.9	-2.8	-2.2
Optimistic	-13.9	-1.3	4.1	1.8	-0.2	4.9	4.8	5.0

In the pessimistic scenario, the market in which Priority Mail operates is assumed to become even more competitive. This effect is reflected in the forecast by assuming that future UPS and FedEx rate increases are held to 1.5 percent below the rate of inflation. Declining real rates for competitors causes volume losses for Priority Mail. The pessimistic scenario also assumes a slower economy over the next five years, further reducing Priority Mail volumes. The pessimistic scenario forecast is that Priority Mail volumes will decline from 879 million pieces in 2005 to 740 million pieces in 2010, a total decline of 16 percent over the five-year period.

The optimistic scenario forecast assumes that UPS and FedEx adopt strategies geared more toward increasing their revenues at the expense of volume. This

impact is reflected in the forecast by assuming that UPS and FedEx raise their rates at faster pace than inflation. The optimistic scenario also projects faster economic growth than the baseline. As a result of these optimistic assumptions, the forecast is for Priority Mail volume to increase to 1,035 million pieces in 2010, a 17 percent rise over the next five years.

### e. Express Mail

Baseline, pessimistic, and optimistic scenario forecasts of Express Mail volumes are presented in Table 8. Express Mail, like Priority Mail, is sensitive to the prices and marketing strategies of competing firms. However, the prospects for Express Mail are weaker than for Priority Mail given that Express Mail has generally been losing volume over the past decade and now commands a small share of the overnight delivery market.

**Table 8: Express Mail Forecasts**

<b>Volumes (in millions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	56	54	55	54	48	45	42	40
Pessimistic	56	54	55	52	45	41	38	35
Optimistic	56	54	55	55	52	50	48	45
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-8.9	-3.1	2.1	-2.7	-9.9	-7.0	-6.2	-6.4
Pessimistic	-8.9	-3.1	1.8	-5.4	-13.2	-9.9	-7.9	-7.8
Optimistic	-8.9	-3.1	2.3	0.2	-6.6	-4.1	-4.4	-5.0

As was the case with Priority Mail, the baseline scenario for Express Mail assumes that competitor actions neither increase nor decrease volume. This impact is reflected in the forecasts by assuming no change in the real rates charged for the overnight services provided by competing companies. In this scenario, Express Mail volume is projected to fall from 55 million pieces in 2005 to 40 million pieces in 2010, a total decline of more than 25 percent. The assumption of an increase in real postal rates over the next five years contributes to this volume decline.

In the pessimistic scenario, the overnight delivery market is assumed to become more competitive, driven mainly by expanded operations by UPS and DHL. This impact is included in the forecast by assuming that FedEx responds to this competitive threat by holding their rate increases to 1.5 percent below the rate of inflation. The decline in the real rates charged by FedEx reduces Express Mail volumes. In addition, the pessimistic scenario projects a slower economy, reflected in essentially flat levels of employment, the economic driver of Express Mail volumes. In the pessimistic scenario, Express Mail volume is projected to fall by more than one-third, 55 million pieces in 2005 to 35 million pieces in 2010.

In the optimistic scenario, employment is assumed to grow more rapidly than is projected in the baseline. More important, the optimistic scenario assumes that the competitive landscape of the overnight market changes in a way that allows FedEx to raise its rates by more than inflation. Higher FedEx rates contribute to

Express Mail volumes. However, given the recent history of this market, in which competition has increased, the optimistic competitor behavior scenario is considered the least likely of three scenarios.

Even in the optimistic scenario, however, Express Mail volumes are projected to decline, though at a slower pace than in the baseline forecast. Volume in 2010 is projected to be 45 million pieces or about five million pieces above the baseline forecast for that year

## f. Periodicals Mail

Baseline, pessimistic, and optimistic scenario forecasts for total Periodicals Mail volumes are presented in Table 9. The scenarios differ in their projections of economic growth, and in the future strength of two negative trends affecting Periodicals Mail volume. For many years, Periodicals Mail volumes have been reduced as a result of a gradual decline in reading and a corresponding decline in periodicals circulation. More recently, Periodicals Mail volumes have declined because the spread of broadband Internet access has facilitated the substitution of online news and entertainment for print media. It has been estimated that these two influences have been reducing Periodicals Mail volumes by about two percent per year.

The baseline scenario projects that the negative influences will continue to subtract approximately two percent per year from Periodicals Mail volumes. Economic factors, such as growth in employment and changes in paper prices, along with increases in population, will only partly offset these negative influences. Therefore, the baseline scenario forecast is that total Periodicals Mail volume will decline from 9.1 billion pieces in 2005 to 8.7 billion pieces in 2010, an average decline of 1.0 percent per year.

**Table 9: Total Periodicals Mail Forecasts**

<b>Volumes (in billions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	9.3	9.1	9.1	9.1	9.0	9.0	8.8	8.7
Pessimistic	9.3	9.1	9.1	8.9	8.6	8.3	8.0	7.8
Optimistic	9.3	9.1	9.1	9.2	9.3	9.5	9.5	9.5
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-3.8	-2.0	-0.2	0.0	-1.3	-0.5	-1.7	-1.1
Pessimistic	-3.8	-2.0	-0.4	-1.8	-3.7	-3.2	-4.0	-2.9
Optimistic	-3.8	-2.0	-0.1	1.2	0.6	1.9	0.2	0.4

The pessimistic scenario differs from the baseline scenario in two important ways. First, it assumes a greater degree of electronic diversion due to the Internet than is assumed in the baseline, with diversion reducing volumes by three percent per year. Second, it projects a less favorable economic scenario than in the baseline, with virtually no net growth in employment from 2005 to 2010, along with rising paper prices. The pessimistic scenario projects that total Periodicals Mail volume will decline to 7.8 billion pieces in 2010, an average decline of 3.1 percent per year.

The optimistic scenario differs from the baseline in that it projects a large increase in employment and decreasing real paper prices, both of which contribute to Periodicals Mail volume. The optimistic scenario also projects a somewhat slower adoption rate for broadband Internet which mildly reduces the pace of electronic diversion. In this optimistic scenario, Periodicals Mail volume remains almost constant, rising from 9.1 billion pieces in 2005 to 9.5 billion pieces in 2010.

### **g. Standard Regular Mail**

Standard Regular Mail volumes depend on the economy, as well as developments in the advertising industry, including the use of the Internet and other new media as a substitute for direct mail. In the baseline scenario, the economy is projected to show steady growth over the next five years, with real retail sales projected to grow an average of 2.2 percent per year and real investment spending projected to an average of 3.3 percent per year. Moreover, the baseline scenario projects that for the near-term, there will be little reduction in Standard Mail volumes due to electronic diversion. However, electronic diversion is projected to be reducing Standard Mail volumes by one percent per year beginning in 2009 in the baseline case.

As shown in Table 10, the baseline scenario forecast is for Standard Regular Mail volume to increase from 53.5 billion pieces in 2005 to 64.9 billion pieces in 2010. This amounts to an average annual increase of about 4.0 percent over the five-year period. Note that the impact of future electronic diversion is seen with the reduction in volume growth beginning in 2009.

**Table 10: Standard Regular Mail Forecasts**

<b>Volumes (in billions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	46.6	50.8	53.5	56.3	58.9	61.7	63.4	64.9
Pessimistic	46.6	50.8	53.5	55.4	56.8	58.5	58.9	59.2
Optimistic	46.6	50.8	53.6	57.1	60.6	64.3	67.2	69.8
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	7.1	8.9	5.4	5.2	4.6	4.8	2.9	2.3
Pessimistic	7.1	8.9	5.3	3.7	2.6	2.9	0.8	0.5
Optimistic	7.1	8.9	5.5	6.6	6.1	6.2	4.6	3.9

The pessimistic scenario differs from the baseline forecast in that it projects only a small real increase in retail sales and a decrease in real investment spending consistent with a recession occurring in 2007. The pessimistic scenario also projects that Standard Regular Mail will be subject to electronic diversion beginning in 2009 but assumes that diversion will begin reduce volume by two percent per year at that time.

Therefore, in the pessimistic scenario, Standard Regular Mail volume is projected to grow from 53.5 billion pieces in 2005 to 59.2 billion pieces in 2010, an annual average increase of 2.0 percent per year. The pessimistic scenario projects that

by 2010, Standard Regular Mail volume will be 5.7 billion pieces lower than in the baseline case.

The optimistic scenario projects a stronger economy than in the baseline, with real retail sales and real investment spending growing at annual rates of 4.1 percent and 7.1 percent, respectively. The optimistic scenario projects that for the foreseeable future, electronic diversion will not reduce Standard Regular Mail volumes.

As a result of these optimistic assumptions, Standard Regular Mail volume is projected to increase from will increase from 53.6 billion in 2005 to 69.8 billion in 2010. This represents an average growth of 5.4 percent per year over the next five years. By 2010, the optimistic scenario forecast is 4.9 billion pieces greater than the baseline forecast.

#### **h. Standard ECR Mail**

Standard ECR Mail, like Regular Mail, is affected by the economy. However, econometric analysis shows that ECR Mail is more sensitive to price and to the prices of other forms of advertising. Therefore, the assumption of higher postal rates included in the scenario forecasts will have a larger negative effect on Standard ECR Mail volume. Moreover, ECR Mail is currently subject to some electronic diversion as Internet advertising substitutes from some types of ECR mail. Finally, as advertising mailers have improved their targeting ability, there has been a reduction in the use of Standard ECR Mail in favor of Standard Regular Mail.

In the baseline scenario, these conditions are expected to continue into the future. The economy is projected to grow steadily, newspaper advertising prices are projected to continue to increase as they have been, and Internet advertising is projected to grab a larger and larger share of the advertising dollar. Moreover, the gradual shift of mail from ECR to more targeted Regular Mail is projected to continue as well. Standard ECR Mail volume is projected to decline from 32.0 billion pieces in 2005 to 31.3 billion pieces in 2010 as higher real postal rates reduce the use of ECR Mail.

**Table 11: Standard ECR Mail Forecasts**

<b>Volumes (in billions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	29.3	30.3	32.0	32.7	31.9	31.6	31.5	31.3
Pessimistic	29.3	30.3	32.0	32.2	30.4	29.1	28.0	27.0
Optimistic	29.3	30.3	32.1	33.3	33.3	34.0	35.0	35.6
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-1.2	3.5	5.6	2.2	-2.6	-0.9	-0.3	-0.9
Pessimistic	-1.2	3.5	5.6	0.5	-5.5	-4.2	-3.9	-3.7
Optimistic	-1.2	3.5	5.7	3.7	-0.1	2.2	2.9	1.7

In the pessimistic scenario, slower economic growth is projected. More important, the pessimistic scenario projects a larger increase in the Internet Volume Forecast Scenarios, August 2005

advertising share while other forms of advertising further reduce ECR volumes. Table 11 shows that in the pessimistic case, Standard ECR Mail volume is projected to fall from 32.0 billion pieces in 2005 to 27.0 billion pieces in 2010, an average decline of 3.4 percent per year over the next five years. Thus, the pessimistic volume projection for 2010 is 4.3 billion pieces below the baseline projection.

The optimistic scenario projects stronger economic growth than in the baseline, as discussed in the Standard Regular Mail section. The optimistic scenario projects a smaller increase in the Internet advertising share than in the baseline and further assumes that no additional sources of diversion projected to emerge over the next five years. Consequently, the optimistic scenario projects that ECR volume will increase from 32.1 billion pieces in 2005 to 35.6 billion in 2010, an average increase of 2.0 percent per year.

### **i. Standard Nonprofit Mail**

The baseline, pessimistic, and optimistic scenario forecasts for Standard Nonprofit Mail are presented in Table 12. The baseline scenario projects that Nonprofit Mail volume will increase from 15.1 billion pieces in 2005 to 15.8 billion pieces in 2010. The main driver of this volume increase is the economy, reflected by growth in retail sales, the economic driver of Standard Nonprofit Mail volume. At present, electronic diversion has not had a major impact on Standard Nonprofit Mail volumes and that condition is expected to continue through 2008. Beginning in 2009, the baseline scenario projects that the Internet and alternatives to direct mail solicitations will begin to divert one percent of Standard Nonprofit Mail per year. Overall, the baseline scenario projects volume to grow by an average of about 1.0 percent per year over the next five years.

**Table 12: Standard Nonprofit Mail Forecasts**

<b>Volumes (in billions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	14.5	14.4	15.1	15.4	15.5	15.7	15.6	15.8
Pessimistic	14.5	14.4	15.1	15.3	15.2	15.1	14.7	14.6
Optimistic	14.5	14.4	15.1	15.5	15.8	16.1	16.3	16.7
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	3.7	-0.6	4.6	2.1	0.8	0.9	-0.5	1.1
Pessimistic	3.7	-0.6	4.6	1.2	-0.6	-0.5	-2.6	-0.9
Optimistic	3.7	-0.6	4.6	2.8	1.8	1.8	1.1	2.8

The pessimistic scenario assumes a weaker economy than in the baseline, which is the main driver of the difference between the pessimistic and baseline forecasts. In addition, the pessimistic forecast assumes a two percent annual loss to electronic diversion beginning in 2009, as opposed to the one percent annual loss assumed in the baseline scenario. Table 12 shows that in the pessimistic scenario, Standard Nonprofit Mail volume is projected to decline from 15.1 billion pieces in 2005 to 14.6 billion pieces in 2010, an annual loss of about 1.0 percent. The pessimistic volume projection for 2010 is about 1.2 billion pieces below the baseline forecast for that year.

Finally, the optimistic scenario projects a stronger economy than in the baseline case and assumes that Standard Nonprofit Mail volumes remain largely unaffected by electronic diversion. Volume is therefore projected to increase to 16.7 billion pieces in 2007, almost one billion more pieces than is projected for that year in the baseline scenario. The optimistic forecast calls for an average annual increase in Standard Nonprofit Mail volume of 2.0 percent.

#### **j. Parcel Post**

Table 13 presents the baseline, pessimistic and optimistic scenario forecasts of total Parcel Post volume. Total volume is forecast as the sum of non-destination entry and destination entry volume. The evidence shows that the volumes of these two categories of parcel post are driven by different factors, with destination entry being more sensitive to its price and the prices charged by its competitors. Moreover, destination entry volumes have been harmed by the increasing competitive nature of the ground delivery market.

The baseline scenario assumes that both UPS and FedEx raise their rates at the same pace as inflation, thereby keeping their real rates unchanged. This is equivalent to assuming that there are no major changes to the competitive structure of the industry over the next five years. As shown in Table 13, the baseline scenario projects total parcel post volume to decline from 391 million pieces in 2005 to 364 million pieces in 2010, a fall of seven percent over the five-year period. This decline is primarily driven by the assumption of higher postal rates in the future.

**Table 13: Total Parcel Post Forecasts**

<b>Volumes (in millions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	387	376	391	383	368	366	364	364
Pessimistic	387	376	391	377	350	337	324	316
Optimistic	387	376	392	390	386	398	409	420
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	3.9	-2.9	4.1	-2.0	-4.1	-0.5	-0.6	0.1
Pessimistic	3.9	-2.9	4.0	-3.5	-7.1	-3.9	-3.8	-2.5
Optimistic	3.9	-2.9	4.3	-0.5	-1.0	3.1	2.8	2.8

The pessimistic scenario projects that the already competitive ground delivery market becomes even more competitive. This change is reflected in the forecast by assuming that UPS and FedEx hold their future rate increases to 1.5 percent below the rate of inflation. The decline in their real rates causes volume to shift away from Parcel Post, with the effect being greater in the more price sensitive destination entry category. In addition to this direct rate effect, the pessimistic scenario also assumes that UPS and FedEx engage in marketing initiatives that cause additional losses of parcel post volume. Therefore, the pessimistic scenario projects that Parcel Post volume will fall from 391 million pieces in 2005 to 316 million pieces in 2010, a total decline of about 20 percent.

The optimistic scenario differs from the baseline scenario in two key ways. First, it assumes that UPS and FedEx increase their ground delivery rates at a faster pace than overall inflation. Second, it assumes that the parcel post gains volume as a result of non-price considerations.

Table 13 shows that in the optimistic scenario, total Parcel Post volume is projected to increase from 392 million pieces in 2005 to 420 million pieces in 2010, a total rise of 7.1 percent over the five-year period. The optimistic scenario projects about 56 million more pieces of parcel post volume in 2010 than is projected in the baseline case.

### k. Bound Printed Matter

The baseline, optimistic, and pessimistic scenario forecasts of Bound Printed Matter are presented in Table 14. The baseline scenario assumes that Bound Printed Matter volume will continue to be driven by increases in mail order retail sales which have helped raise volume from 545 million pieces in 2003 to a projected 589 million pieces in 2005. Going forward, the forecast is for a further volume increase to 684 million pieces in 2010, representing an average volume gain of 3.0 percent per year.

The pessimistic scenario projects a weaker economy than the baseline. The weaker economic projection includes slower growth in mail order retail sales which acts to reduce volume relative to the baseline. Bound Printed Matter volume is projected to rise from 588 million pieces in 2005 to 638 million pieces in 2010, an average annual increase of 1.6 percent per year.

The optimistic scenario projects a stronger economy and, as a result, a greater increase in mail order retail sales that is projected in the baseline case. Bound Printed Matter volume is projected to increase from 589 million pieces in 2005 to 746 million pieces in 2010 in the optimistic scenario. This represents an average annual increase of 4.8 compared with the baseline forecast of 3.0 percent annual average growth.

**Table 14: Bound Printed Matter Forecasts**

<b>Volumes (in millions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	545	554	589	621	639	657	666	684
Pessimistic	545	554	588	613	620	628	628	638
Optimistic	545	554	589	628	656	685	711	746
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	7.3	1.6	6.4	5.5	2.9	2.8	1.4	2.7
Pessimistic	7.3	1.6	6.2	4.3	1.2	1.1	0.1	1.5
Optimistic	7.3	1.6	6.4	6.5	4.5	4.4	3.8	4.9

## I. Media Mail

Table 15 presents the scenario forecasts for Media Mail. In the baseline scenario, volume is projected to increase from 178 million pieces in 2005 to 202 million pieces in 2010, an average rise of 2.6 percent per year. The main driver of this increase is growth in mail order retail sales.

The pessimistic scenario projects slower growth in mail order retail sales than in the baseline which, in turn, leads to slower growth in Media Mail volumes. In this scenario, volume is projected to increase to 197 million pieces in 2010. Finally, the optimistic scenario projects stronger growth in mail order retail sales than in the baseline. This leads to a larger increase in Media Mail volumes which, in the optimistic scenario, are projected to be 206 million pieces in 2010.

**Table 15: Media Mail Forecasts**

Volumes (in millions)	2003	2004	2005	2006	2007	2008	2009	2010
Baseline	179	186	178	186	187	192	198	202
Pessimistic	179	186	178	185	184	188	194	197
Optimistic	179	186	178	187	188	194	202	206
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	2.6	3.9	-4.2	4.4	0.2	2.9	3.3	1.9
Pessimistic	2.6	3.9	-4.3	3.7	-0.3	2.4	2.9	1.5
Optimistic	2.6	3.9	-4.2	4.8	0.7	3.3	3.7	2.2

## m. International Mail

The baseline, pessimistic, and optimistic scenario forecasts of International Mail volumes are presented in Table 16. In general, two factors drive International Mail volumes. The first is the positive influence of rising international trade and related activities. The second is the negative impact from electronic diversion due to the use of e-mail as a substitute for International Mail. In the baseline case, these two effects are seen as being roughly offsetting, but higher International Mail rates cause volume to decline from 860 million pieces in 2005 to 830 million pieces in 2010.

**Table 16: International Mail Forecasts**

Volumes (in millions)	2003	2004	2005	2006	2007	2008	2009	2010
Baseline		844	860	851	831	832	829	830
Pessimistic		844	856	823	783	765	751	744
Optimistic		844	863	879	882	903	914	926
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline		4.8	1.9	-1.1	-2.3	0.0	-0.4	0.2
Pessimistic		4.8	1.5	-3.9	-4.8	-2.3	-1.9	-1.0
Optimistic		4.8	2.3	1.9	0.4	2.4	1.2	1.3

In the pessimistic scenario, electronic diversion effects are presumed to dominate. As a consequence, International Mail volumes are projected to decline from 856 million pieces in 2005 to 744 million pieces in 2010, a total decline of 13 percent over the five-year period.

In the optimistic scenario, growth in international activity (both business and personal) is projected to dominate the negative effects of electronic diversion. International Mail volumes are projected to rise to 926 million pieces in 2010, a total increase of 7.3 percent over the five-year period.

#### **n. Registered Mail**

Table 17 presents the scenario forecasts for Registered Mail. In the baseline scenario, Registered Mail volume is driven mainly by the continuation of a long-term negative trend. Volume is projected to fall almost by half over the next five years, declining from 7.6 million pieces in 2005 to 3.9 million pieces in 2010.

The pessimistic scenario differs from the baseline scenario in two ways. First, an additional negative trend of 1.0 percent per year is included in the forecast. Second, since Registered Mail volumes are tied to First-Class letter volumes, the pessimistic scenario forecast for Registered Mail is based on the pessimistic scenario forecast of First-Class letters. In this pessimistic scenario, volume declines to 3.6 million pieces in 2010.

In the optimistic scenario, a positive trend of 1.0 percent per year is added to the forecast. In addition, the optimistic scenario forecast of Registered Mail is based on the optimistic scenario forecast of First-Class letters. As this optimistic forecast was considered the least likely of the three volume scenarios for First-Class letters, it is also the least likely of the three volume scenarios for Registered Mail. Volume is projected at 4.3 million pieces in 2010.

**Table 17: Registered Mail Forecasts**

<b>Volume (in Millions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	8.1	7.4	7.6	6.4	5.5	5.0	4.4	3.9
Pessimistic	8.1	7.4	7.6	6.3	5.3	4.7	4.1	3.6
Optimistic	8.1	7.4	7.6	6.6	5.8	5.3	4.8	4.3
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-12.6	-9.0	2.3	-15.7	-13.9	-10.4	-11.8	-10.8
Pessimistic	-12.6	-9.0	2.1	-17.1	-15.4	-12.0	-13.6	-12.3
Optimistic	-12.6	-9.0	2.7	-13.6	-11.9	-8.3	-10.0	-9.5

#### **o. Insured Mail**

The baseline scenario forecast of Insured Mail assumes that the long-term negative volume trend continues. The pessimistic scenario forecast includes an annual negative trend of one percent. Moreover, since the volume of Insured Mail is driven by the Postal Service's package market volumes, the pessimistic scenario forecast for Insured Mail is based on the pessimistic scenario forecasts of the postal package products. The optimistic scenario differs from the baseline in that it includes a positive 1.0 percent annual trend and it is based on the optimistic scenario forecast of the postal package forecasts.

Table 18 presents the scenario forecasts for Insured Mail. In the baseline case, Insured Mail volume falls by about half over the next five years, from 49 million pieces in 2005 to 25 million pieces in 2010. The pessimistic and optimistic scenario forecasts are similar to the baseline, with a forecasted 2010 volume of 23 million pieces in the pessimistic scenario and 30 million pieces in the optimistic scenario. Thus, in all three scenarios, the historical downward trend in Insured Mail volumes continues to drive the forecast.

**Table 18: Insured Mail Forecasts**

<b>Volume (in Millions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	58	53	49	44	38	33	28	25
Pessimistic	58	53	49	43	37	32	26	23
Optimistic	58	53	49	45	40	35	31	30
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-1.7	-10.0	-7.5	-10.7	-12.8	-12.8	-14.9	-13.4
Pessimistic	-1.7	-10.0	-7.6	-12.0	-14.5	-14.5	-16.4	-14.5
Optimistic	-1.7	-10.0	-7.3	-9.3	-11.2	-11.0	-13.2	-12.2

#### **p. Certified Mail**

Table 19 presents the scenario forecasts for Certified Mail. The baseline scenario is the most likely case and assumes that Certified Mail volumes will continue to grow much as they have in the recent past. The pessimistic forecast includes a negative trend of 1.0 percent per year. Moreover, since the volume of Certified Mail is tied to the volume of First-Class letters, the pessimistic scenario forecast is based on the pessimistic scenario forecast for letters. In the optimistic scenario, the forecast is based on the optimistic scenario forecast for letters, making it the least likely of the three scenarios. In addition, the optimistic scenario includes an additional 1.0 percent positive annual trend.

**Table 19: Certified Mail Forecasts**

<b>Volume (in Millions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	271	274	257	262	259	260	263	266
Pessimistic	271	274	257	256	247	243	238	236
Optimistic	271	274	259	272	276	287	298	307
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-4.3	0.8	-6.0	1.7	-1.2	0.7	1.0	1.3
Pessimistic	-4.3	0.8	-6.2	-0.5	-3.4	-1.6	-1.8	-1.1
Optimistic	-4.3	0.8	-5.5	5.0	1.8	3.8	3.7	3.3

In the baseline scenario, Certified Mail volumes are projected to increase modestly, rising from 257 million pieces in 2005 to 266 million pieces in 2010. In the pessimistic scenario, volume falls to 236 million pieces in 2010, while in the optimistic scenario, Certified Mail volume reaches 307 million pieces in 2010.

### q. COD Mail

Table 20 presents the scenario forecast for COD Mail. In all three scenarios, COD volumes are projected to decline as they have been for many years. The pessimistic scenario assumes this decline will occur more rapidly than in the baseline scenario, which is accomplished by including a 1.0 percent annual negative trend into the pessimistic scenario forecast. The optimistic scenario forecast includes a 1.0 percent positive annual trend. Overall, the impact of the different scenario trends is far less than the negative trend included in the baseline forecast. In all three scenarios, COD volume is projected to decline from its projected volume of 1.5 million pieces in 2005.

**Table 20: COD Mail Forecasts**

<b>Volume (in Millions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	1.9	1.9	1.5	1.5	1.4	1.3	1.2	1.1
Pessimistic	1.9	1.9	1.5	1.5	1.4	1.3	1.2	1.1
Optimistic	1.9	1.9	1.5	1.5	1.4	1.4	1.3	1.2
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-18.6	2.6	-21.0	1.6	-7.7	-7.0	-6.8	-6.3
Pessimistic	-18.6	2.6	-21.2	0.5	-8.6	-7.9	-7.7	-6.9
Optimistic	-18.6	2.6	-20.9	2.7	-6.8	-6.0	-6.0	-5.8

### r. Return Receipts

Return Receipts volume is driven by the volume of Certified Mail as these two products are often used together. As such, Return Receipts volume is also driven by First-Class letter volume, as this is a driver of Certified Mail. In the baseline scenario, Return Receipts volume is projected to remain flat.

The pessimistic scenario forecast for Return Receipts is based on the pessimistic scenario forecast for Certified Mail. In addition, a negative 1.0 percent annual trend is included in the forecast. In this scenario, Return Receipts volume declines from 236 million pieces in 2005 to 208 million pieces in 2010, 13.5 percent less than the baseline scenario forecast for that year.

**Table 21: Return Receipts Forecasts**

<b>Volume (in Millions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	231	239	237	238	235	236	238	241
Pessimistic	231	239	236	231	221	216	211	208
Optimistic	231	239	239	248	253	263	274	283
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-7.3	3.2	-0.8	0.4	-1.6	0.7	0.8	1.1
Pessimistic	-7.3	3.2	-1.1	-2.4	-4.3	-2.2	-2.4	-1.4
Optimistic	-7.3	3.2	-0.2	4.2	1.8	4.1	3.8	3.3

The optimistic scenario forecast includes a positive annual trend of 1.0 percent. In addition, the optimistic scenario forecast for Return Receipts is based on the optimistic scenario forecast of Certified Mail which, in turn, is based on the Volume Forecast Scenarios, August 2005

optimistic scenario forecast of First-Class letters. As a result, the optimistic scenario is considered the least likely of the three scenarios. In this scenario, Return Receipts volume increases from 239 million pieces in 2005 to 283 million pieces in 2010, 17.5 percent more than in the baseline scenario forecast.

### s. Money Orders

Table 22 presents the baseline, pessimistic and optimistic scenario forecasts for Money Orders. Money Order volumes have recently come under pressure due to the entry of Wal-Mart and other retailers into the money order business. The baseline scenario assumes that this increase in competition will continue to reduce money order volumes. Volume is therefore projected to decline from 181 million pieces in 2005 to 149 million pieces in 2010, a total drop of about 18 percent over the five-year period.

**Table 22: Money Orders Mail Forecasts**

<b>Volume (in Millions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	198	188	181	179	170	163	156	149
Pessimistic	198	188	181	175	163	153	144	137
Optimistic	198	188	182	183	178	174	168	162
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	-8.5	-5.8	-3.4	-1.2	-5.2	-4.2	-4.5	-4.0
Pessimistic	-8.5	-5.8	-3.6	-3.2	-7.3	-6.0	-5.6	-4.8
Optimistic	-8.5	-5.8	-3.3	0.8	-3.1	-2.4	-3.3	-3.2

The pessimistic scenario includes the pessimistic projection of essentially constant employment over the next five years. In addition, the forecast includes a negative 1.0 percent annual trend on the view that the money order market could become even more competitive. Money Order volume declines from 181 million pieces in 2005 to 137 million pieces in 2010, a 24 percent decrease.

The optimistic scenario includes the optimistic projection that employment will increase by more than two million jobs per year over the next five years. The optimistic forecast also assumes that the money order market becomes less competitive in the future, an impact that is reflected in the forecast by a 1.0 percent positive annual trend. However, given that this market is becoming more and more competitive, this optimistic scenario should be viewed as the least likely case. Nevertheless, Money Order volume is still projected to decline in the optimistic scenario, falling from 182 million pieces in 2005 to 162 million pieces in 2010. Over the five-year period, this represents an eleven percent decline.

### t. Delivery and Signature Confirmation

Delivery and Signature Confirmation volumes have been growing rapidly, which is often the case for a new product. The baseline scenario assumes that volume will continue to grow but at a more reasonable pace than has been experienced in the recent past. Volume is projected to rise from 692 million pieces in 2005 to 905 million pieces in 2010, an average increase of 5.5 percent per year.

The pessimistic scenario projects that the slowdown in the growth of Delivery and Signature Confirmation volume will occur more rapidly than is projected in the baseline. A negative 1.0 percent annual trend is included in the forecast. As a result, volume is projected to rise more slowly than in the baseline case, increasing from 691 million pieces in 2005 to 863 million pieces in 2010, an average annual rise of 4.6 percent.

The optimistic scenario projects that volume growth will remain stronger than projected in baseline case, and it includes a one percent positive annual trend. In this scenario, Delivery and Signature Confirmation volumes increase from 693 million pieces in 2005 to 949 million pieces in 2010, a 37 percent increase.

Table 23 presents the baseline, pessimistic, and optimistic scenario forecast for Delivery and Signature Confirmation volumes.

**Table 23: Delivery & Signature Confirmation Mail Forecasts**

<b>Volume (in Millions)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	515	599	692	738	773	822	863	905
Pessimistic	515	599	691	729	756	796	828	863
Optimistic	515	599	693	747	790	849	899	949
<b>% Change over SPLY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Baseline	81.9	17.2	15.5	6.7	4.7	6.3	5.0	4.9
Pessimistic	81.9	17.2	15.3	5.5	3.7	5.2	4.1	4.3
Optimistic	81.9	17.2	15.6	7.8	5.8	7.4	5.9	5.5

### **III. Approach to Creating Pessimistic and Optimistic Scenarios**

Pessimistic and optimistic scenarios have been created to give a plausible range of mail volumes around the baseline forecast. These scenarios also show the sensitivity of mail volumes to assumptions about the behavior of key volume drivers such as the economy, electronic diversion, and competitor behavior.

The pessimistic forecast differs from the baseline forecast in that it projects a weaker economy as well as larger losses from electronic diversion. The pessimistic forecast also projects greater losses to competitors due to more aggressive pricing and marketing behavior on their part. The optimistic forecast projects a stronger economy, less electronic diversion, and a more favorable competitive environment than forecast in the baseline. The pessimistic scenarios are considered more likely than the optimistic scenarios and therefore, as a whole, the pessimistic scenario is considered the second-most likely scenario (behind the baseline) while the optimistic scenario is considered the least likely scenario.

The pessimistic and optimistic scenario projections for economic performance, electronic diversion, and competitor pricing will be discussed in turn.

#### ***A. Economic Scenarios***

The baseline economic scenario is taken from Global Insight's July economic forecast. This forecast projects steady economic growth over the next five years. However, no one can know for sure whether an economic recession or substantial slowdown will occur sometime over the next five years. This prospect is taken into consideration in the pessimistic economic scenario which introduces a mild economic recession into the economy in 2007 and generally weaker economic performance over the five years from 2005 through 2010.

Another possibility is that the economy could experience stronger growth than projected in the baseline scenario. This prospect is taken into consideration in the optimistic economic scenario which assumes more rapid economic growth than is projected in Global Insight's baseline forecast.

Both the pessimistic and optimistic economic scenarios are created by modifying the baseline economic forecasts by applying historical variations in the performance of key economic variables. Three variables that have been found to be drivers of mail volumes are employment, retail sales, and business investment spending. Table 24 presents average annual changes in these three variables from 2005 to 2010 for each of the three economic scenarios. Retail sales and investment spending are presented in real terms, i.e., adjusted for inflation. Note that there are other economic variables that influence mail volumes but Table 24 focuses on the most important economic drivers.

**Table 24: Average Annual Percentage Change in Economic Variables  
2005 to 2010  
Pessimistic, Baseline, and Optimistic Economic Scenarios**

<b>Economic Variable</b>	<b>Pessimistic</b>	<b>Baseline</b>	<b>Optimistic</b>
Private Sector Employment	0.3%	1.1%	2.0%
Real Retail Sales	0.5%	2.3%	4.1%
Real Business Investment Spending	-0.5%	3.3%	7.2%

In the baseline scenario, employment is projected to increase at an annual rate of 1.1 percent which corresponds to a net gain of about 6.4 million private sector jobs over the next five years. Real retail sales are projected to increase an average of 2.3 percent per year in the baseline scenario. Real business investment spending, a key driver of Standard Mail, is projected to increase by an average of 3.3 percent per year in the baseline scenario.

In the pessimistic scenario, employment is projected to decline in 2007 and then recover modestly. From 2005 through 2010, virtually no net increase in private sector employment growth is projected. This scenario is consistent with a mild recession. A deeper recession, were it to occur, would have even greater adverse affects on mail volumes than projected in the pessimistic economic scenario.

The pessimistic scenario also projects that real retail sales will increase at just a 0.5 percent annual rate, meaning that retail sales growth will be just greater than inflation. Investment spending is projected to decline in real terms over the next five years in the pessimistic economic scenario.

The optimistic scenario projects that employment will increase by an average of 2.0 percent per year over the next five years, equivalent to about 2.25 million additional private sectors jobs added each year. This is approximately the same pace as occurred from 1995 through 2000. The optimistic scenario also projects that real retail sales will grow by an average of 4.1 percent per year over the forecast horizon. Real investment spending is projected to grow even more rapidly, rising by an average of 7.2 percent per year. The greater variation of investment spending in the three scenarios is consistent with the greater historical volatility of this variable.

One other note is that the variation of economic performance is likely greater in the near-term than in the long-term. The economy's record of economic growth over any three year period during the last four decades is much less stable than its record over longer periods. As such, the range given to the economic variables over the next three years is greater than the range given to them over the longer-term.

## **B. Electronic Diversion Scenarios**

Electronic diversion refers to the loss of mail volumes due to the use of technological alternatives such as e-mail, online bill payment, electronic funds transfers, electronic bill presentment, and advertising over the Internet. It encompasses both the direct replacement of mail (e.g., a bill that is paid online instead of through the mail) as well the effect of changing household, business, and government use of the mail due to the many technological changes that have occurred over the past decade or so. Thus, the term “electronic diversion” is used to reflect these adverse impacts on the mail even though not all mail diversion is directly attributable to any specific electronic alternative.

Electronic diversion effects are included in the Postal Service volume models in two ways. The first is to relate the loss of mail volume to specific measures of technological use such as total online experience, the number of broadband subscribers, or the Internet advertising share. A second way in which diversion is included in the volume models is through trend terms that measure the decline in mail volume related to the general increase in the use of technological alternatives to the mail and other recent changes to the markets in which postal products operate. Historical data are used to estimate the past impact of diversion of mail volumes, and these historical estimates form the basis of the projected levels of diversion included in the baseline, pessimistic, and optimistic scenarios.

Table 25 presents the approximate amount of electronic diversion included in the baseline, pessimistic, and optimistic scenarios.

**Table 25: Average Annual Volume Loss to Electronic Diversion  
2005 to 2010  
Pessimistic, Baseline, and Optimistic Economic Scenarios**

Mail Class	Pessimistic		Baseline		Optimistic	
	pieces	percent	Pieces	percent	pieces	percent
First-Class Mail	4.5 billion	5.0%	3.6 billion	4.0%	2.4 billion	2.5%
Standard Mail	2.1 billion*	2.0%*	1.1 billion*	1.0%*	0	0
Periodicals Mail	270 million	3.0%	180 million	2.0%	135 million	1.5%

\* Starting in 2009

The baseline forecast projects that electronic diversion will continue to reduce mail volumes at about the same rate that it has in the recent past. In First-Class Mail, this diversion has been estimated at about 3.6 billion pieces per year. Going forward, the baseline electronic diversion scenario projects a continuation of this volume loss, which is equivalent to about 4.0 percent volume loss per year.

Standard Mail has not been strongly affected by electronic diversion, though there is evidence that ECR mail volume has been reduced somewhat by Internet advertising. Going forward, this situation is projected to continue through 2008.

However, beginning in 2009, the baseline model assumes that electronic diversion begins to reduce Standard Mail volumes by one percent per year. The 2009 starting point is admittedly a bit arbitrary. It may occur sooner, it may occur later, it may not occur at all. However, given the increased interest by marketers in alternatives to traditional advertising, it seems reasonable to expect that at some point in the future, Standard Mail volumes will be negatively affected.

Periodicals Mail has also been affected by electronic diversion in recent years, as well as by a long-term decline in the reading of newspapers. The baseline diversion scenario is that these volume losses will continue at their recent rate of about two percent per year, taking into account both the long-term volume decline and the more recent declines due to electronic diversion.

The pessimistic diversion scenario projects a greater rate of diversion than in the baseline. In First-Class, diversion is projected to average about 4.5 billion pieces per year in this scenario, compared to 3.6 billion pieces per year in the baseline case. Increased diversion may result from a number of factors. First, the penetration of household Internet usage may rise more rapidly than projected in the baseline. The Internet could become nearly as commonplace as telephones. Second, and more important, households already using the Internet may make greater use of electronic alternatives for bill payment. Even now, only about one in six households pay any bills online. Another area of potentially larger losses of volume is the business-to-household market. As households pay more bills online, they are likely to begin receiving more bills online. It is reasonable to assume a more rapid adoption of electronic bill presentment than is projected in the baseline diversion scenario. Finally, business-to-business communications could shift more rapidly to the Internet.

The pessimistic scenario also projects that electronic diversion will begin to appreciably reduce Standard Mail volumes beginning in 2009, but this scenario assumes that diversion reduces volume by two percent per year, equivalent to about 2.1 billion pieces of Standard Mail annually. The pessimistic scenario also projects greater diversion of Periodicals Mail volumes than in the baseline scenario, with the Internet and other alternatives to magazines and newspapers diverting about three percent of Periodicals Mail volume per year.

The optimistic diversion scenario, in which diversion slows from its current pace, is considered unlikely. As a result, the optimistic scenario – including the optimistic assumptions regarding the economy and competitor pricing – is considered less likely than the pessimistic forecast scenario. Still, it is possible that certain events will act to slow the loss of mail to electronic alternatives. First, household Internet penetration growth is slowing, and it is possible that the Internet use will peak out at about seventy percent of households, similar to the current level of cable-TV penetration. Second, there has been a noted increase in the amount of computer viruses and e-mail scams that may cause people to avoid using the Internet for financial activities. Finally, it is possible that the shift

of business-to-business mail to the Internet could be slowed as a result of proprietary standards for data transmission complicating coordination between enterprises.

In the optimistic diversion scenario, the annual losses of First-Class Mail are projected to be about 2.4 billion pieces per year, about one-third less diversion than is included in the baseline scenario. The optimistic scenario also projects that Standard Mail volume will be largely unaffected by electronic diversion over the next five years. Finally, this scenario also projects that diversion will only remove about 1.5 percent of Periodicals volume on an annual basis.

### **C. Competitor Price Scenarios**

The volumes of Priority Mail, Express Mail, and Parcel Post are affected by the prices of private delivery companies, principally UPS and FedEx. Table 26 shows the competitor price scenarios used in the baseline, optimistic, and pessimistic forecasts. The baseline scenario projects that UPS and FedEx both raise their prices at the same rate as inflation, leaving their real prices unchanged. Put differently, the baseline scenario projects that the pricing and marketing strategies of UPS and FedEx neither reduce nor increase the volume of postal products.

In the pessimistic competitor price scenario, UPS and FedEx are projected to limit their price increases to 1.5 percent below the rate of inflation. This decline in the real price of postal competitors will act to reduce the volume of postal products relative to the baseline scenario. The pessimistic competitor price assumption can also be taken to mean that in the pessimistic scenario, the competitive nature of the market will change in ways detrimental to postal volume growth. For example, expanded activity by DHL would be expected to make the overnight and package delivery markets more competitive than they are now.

In the optimistic competitor price scenario, both UPS and FedEx are projected to raise their rates by more than inflation. This projected increase in the real prices charged by competitors will lead to greater volumes of competing postal products that would result in the baseline scenario. Again, this scenario can also be interpreted as meaning that overnight and package delivery markets change in ways that are beneficial to the Postal Service.

**Table 26: Average Real Annual Percentage Change in Competitor Price  
2005 to 2010  
Pessimistic, Baseline, and Optimistic Scenarios**

Competitor Price	Pessimistic	Baseline	Optimistic
UPS	-1.5%	0%	+1.5%
FedEx	-1.5%	0%	+1.5%

The pessimistic and optimistic competitor price scenarios are based on the past behavior of UPS and FedEx. Historically, UPS has raised its rates relative to inflation while FedEx price increases have tended to be less than inflation. In the pessimistic scenario, competition from FedEx (and other delivery firms like DHL), forces UPS to reduce their price increases relative to inflation. In the optimistic scenario, FedEx adopts a pricing strategy similar to what UPS has pursued in the past, focusing on increasing prices and revenues at the expense of volumes.

## IV. Comparison with Other Forecasts

The 2005Q3 baseline total volume forecast is within the range presented in the 2005Q1 forecast and the 2005 Integrated Financial Plan (2005 IFP) forecast. Focusing on 2010, Table 27 shows that for total mail and for First-Class Mail and Standard Mail, the 2005Q3 baseline forecast is below the 2005Q1 and 2005 IFP baseline forecasts, but well within the range created by the baseline and pessimistic scenarios. The 2005Q3 baseline forecast of All Other Mail volume is greater than the earlier baseline forecasts, but within the range created by the earlier baseline and optimistic forecasts.

Table 27 also shows that the 2005Q3 pessimistic and optimistic forecasts of total mail, First-Class Mail and Standard Mail are close to the pessimistic and optimistic forecasts from 2005Q1 and the 2005 IFP. The 2005Q3 pessimistic and optimistic forecasts of All Other Mail volume are close to those from the 2005Q1 forecast, but noticeably greater than those from the 2005 IFP.

**Table 27**  
**Comparison of Forecasts of GFY 2010 Volumes**

Mail Class		<b>2005Q3 Forecast</b>	<b>2005Q1 Forecast</b>	<b>2004Q3 IFP 2005</b>
Total Mail	Pessimistic	190.5	193.7	189.8
	<b>Baseline</b>	<b>210.0</b>	<b>217.6</b>	<b>211.4</b>
	Optimistic	231.3	236.3	231.6
First-Class	Pessimistic	78.6	78.4	80.0
	<b>Baseline</b>	<b>85.5</b>	<b>89.5</b>	<b>87.0</b>
	Optimistic	95.4	97.9	96.6
Standard	Pessimistic	100.7	104.3	100.2
	<b>Baseline</b>	<b>111.9</b>	<b>115.9</b>	<b>113.2</b>
	Optimistic	122.1	124.9	122.4
All Other	Pessimistic	11.2	10.9	9.6
	<b>Baseline</b>	<b>12.6</b>	<b>12.2</b>	<b>11.2</b>
	Optimistic	13.8	13.5	12.6

## **Appendix: Long-Term Forecasts to 2014**

The appendix presents baseline, pessimistic, and optimistic forecasts for fiscal years through 2014. As was the case for the forecasts through 2010, the baseline forecast is considered the most likely, the pessimistic forecast the second most likely, and the optimistic forecast the least likely.

**Table A1. Baseline Volume Forecast**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
First-Class Mail	102,379	99,059	97,505	95,361	92,865	90,945	89,547	87,908	85,886	84,835	82,984	81,952	80,487
Priority Mail	998	860	837	811	757	717	663	628	574	557	512	502	460
Express Mail	61	56	54	54	52	50	48	46	43	42	41	40	38
Periodical Mail	9,690	9,320	9,038	8,825	8,684	8,403	8,311	8,098	7,936	7,773	7,656	7,517	7,418
Standard Mail	87,231	90,492	95,062	98,838	101,493	104,516	107,835	111,009	113,388	115,271	116,559	117,982	119,213
Package Services	1,075	1,129	1,127	1,139	1,150	1,153	1,162	1,170	1,187	1,206	1,225	1,233	1,248
International Mail	904	805	855	883	866	865	845	849	818	827	804	817	799
<b>Total</b>	<b>202,822</b>	<b>202,185</b>	<b>205,051</b>	<b>206,476</b>	<b>206,448</b>	<b>207,241</b>	<b>209,026</b>	<b>210,337</b>	<b>210,477</b>	<b>211,172</b>	<b>210,459</b>	<b>210,747</b>	<b>210,382</b>
<b>% Change Over SPLY</b>													
First-Class Mail	-1.2%	-3.2%	-1.6%	-2.2%	-2.6%	-2.1%	-1.5%	-1.8%	-2.3%	-1.2%	-2.2%	-1.2%	-1.8%
Priority Mail	-10.7%	-13.9%	-2.7%	-3.1%	-6.7%	-5.3%	-7.5%	-5.3%	-8.6%	-3.0%	-8.0%	-2.0%	-8.3%
Express Mail	-11.7%	-8.9%	-3.3%	0.0%	-3.3%	-5.0%	-4.2%	-3.7%	-5.0%	-2.5%	-4.2%	-2.2%	-4.0%
Periodical Mail	-3.8%	-3.8%	-3.0%	-2.4%	-1.6%	-3.2%	-1.1%	-2.6%	-2.0%	-2.1%	-1.5%	-1.8%	-1.3%
Standard Mail	-3.0%	3.7%	5.1%	4.0%	2.7%	3.0%	3.2%	2.9%	2.1%	1.7%	1.1%	1.2%	1.0%
Package Services	-1.6%	5.0%	-0.1%	1.1%	1.0%	0.3%	0.7%	0.7%	1.5%	1.6%	1.6%	0.6%	1.3%
International Mail	-16.5%	-10.9%	6.1%	3.3%	-1.9%	-0.1%	-2.4%	0.5%	-3.7%	1.0%	-2.7%	1.6%	-2.2%
<b>Total</b>	<b>-2.2%</b>	<b>-0.3%</b>	<b>1.4%</b>	<b>0.7%</b>	<b>0.0%</b>	<b>0.4%</b>	<b>0.9%</b>	<b>0.6%</b>	<b>0.1%</b>	<b>0.3%</b>	<b>-0.3%</b>	<b>0.1%</b>	<b>-0.2%</b>

**Table A2. Pessimistic Volume Scenario**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
First-Class Mail	102,379	99,059	97,399	94,101	89,984	86,562	84,150	81,675	78,897	77,055	74,527	72,773	70,669
Priority Mail	998	860	825	746	671	614	556	516	462	439	395	379	341
Express Mail	61	56	53	51	48	45	43	41	38	37	35	34	33
Periodical mail	9,690	9,320	9,024	8,682	8,334	7,824	7,543	7,207	6,945	6,685	6,478	6,255	6,073
Standard Mail	87,231	90,492	95,004	97,597	98,179	99,244	101,175	101,065	100,232	99,808	98,925	98,151	97,239
Package Services	1,075	1,129	1,123	1,106	1,086	1,061	1,043	1,025	1,017	1,010	1,004	987	979
International Mail	904	805	850	841	790	756	711	689	640	623	584	572	539
<b>Total</b>	<b>202,822</b>	<b>202,185</b>	<b>204,852</b>	<b>203,690</b>	<b>199,673</b>	<b>196,699</b>	<b>195,837</b>	<b>192,847</b>	<b>188,875</b>	<b>186,318</b>	<b>182,628</b>	<b>179,856</b>	<b>176,590</b>
<b>% Change Over SPLY</b>													
First-Class Mail	-1.2%	-3.2%	-1.7%	-3.4%	-4.4%	-3.8%	-2.8%	-2.9%	-3.4%	-2.3%	-3.3%	-2.4%	-2.9%
Priority Mail	-10.7%	-13.9%	-4.0%	-9.6%	-10.1%	-8.4%	-9.5%	-7.2%	-10.5%	-5.0%	-9.9%	-4.0%	-10.2%
Express Mail	-11.7%	-8.9%	-4.2%	-4.5%	-5.5%	-6.7%	-5.0%	-4.5%	-5.8%	-3.3%	-5.0%	-3.0%	-4.8%
Periodical Mail	-3.8%	-3.8%	-3.2%	-3.8%	-4.0%	-6.1%	-3.6%	-4.5%	-3.6%	-3.7%	-3.1%	-3.4%	-2.9%
Standard Mail	-3.0%	3.7%	5.0%	2.7%	0.6%	1.1%	1.9%	-0.1%	-0.8%	-0.4%	-0.9%	-0.8%	-0.9%
Package Services	-1.6%	5.0%	-0.5%	-1.6%	-1.8%	-2.3%	-1.7%	-1.7%	-0.8%	-0.7%	-0.6%	-1.7%	-0.9%
International Mail	-16.5%	-10.9%	5.6%	-1.1%	-6.1%	-4.3%	-5.9%	-3.1%	-7.2%	-2.6%	-6.2%	-2.1%	-5.7%
<b>Total</b>	<b>-2.2%</b>	<b>-0.3%</b>	<b>1.3%</b>	<b>-0.6%</b>	<b>-2.0%</b>	<b>-1.5%</b>	<b>-0.4%</b>	<b>-1.5%</b>	<b>-2.1%</b>	<b>-1.4%</b>	<b>-2.0%</b>	<b>-1.5%</b>	<b>-1.8%</b>

**Table A3. Optimistic Volume Scenario**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
First-Class Mail	102,379	99,059	97,611	96,634	95,826	95,532	95,265	94,586	93,458	93,359	92,352	92,236	91,612
Priority Mail	998	860	839	836	810	793	749	724	676	669	628	629	589
Express Mail	61	56	54	55	55	54	52	51	49	48	47	46	45
Periodical mail	9,690	9,320	9,053	8,969	9,051	9,037	9,186	9,138	9,116	9,096	9,119	9,120	9,163
Standard Mail	87,231	90,492	95,121	100,100	104,933	110,090	114,779	119,011	122,535	125,563	128,050	130,721	133,364
Package Services	1,075	1,129	1,128	1,151	1,177	1,195	1,218	1,240	1,272	1,306	1,342	1,365	1,398
International Mail	904	805	858	915	929	957	960	991	981	1,018	1,017	1,061	1,066
<b>Total</b>	<b>202,822</b>	<b>202,185</b>	<b>205,236</b>	<b>209,226</b>	<b>213,361</b>	<b>218,250</b>	<b>222,824</b>	<b>226,371</b>	<b>228,730</b>	<b>231,720</b>	<b>233,234</b>	<b>235,882</b>	<b>237,954</b>
<b>% Change Over SPLY</b>													
First-Class Mail	-1.2%	-3.2%	-1.5%	-1.0%	-0.8%	-0.3%	-0.3%	-0.7%	-1.2%	-0.1%	-1.1%	-0.1%	-0.7%
Priority Mail	-10.7%	-13.9%	-2.4%	-0.3%	-3.1%	-2.2%	-5.6%	-3.3%	-6.7%	-1.0%	-6.1%	0.1%	-6.4%
Express Mail	-11.7%	-8.9%	-3.1%	2.5%	-0.7%	-2.8%	-3.0%	-2.5%	-3.8%	-1.3%	-3.1%	-1.0%	-2.9%
Periodical Mail	-3.8%	-3.8%	-2.9%	-0.9%	0.9%	-0.2%	1.6%	-0.5%	-0.2%	-0.2%	0.3%	0.0%	0.5%
Standard Mail	-3.0%	3.7%	5.1%	5.2%	4.8%	4.9%	4.3%	3.7%	3.0%	2.5%	2.0%	2.1%	2.0%
Package Services	-1.6%	5.0%	0.0%	2.0%	2.3%	1.6%	1.9%	1.8%	2.6%	2.7%	2.7%	1.8%	2.4%
International Mail	-16.5%	-10.9%	6.5%	6.6%	1.5%	3.1%	0.3%	3.2%	-1.1%	3.8%	-0.1%	4.4%	0.5%
<b>Total</b>	<b>-2.2%</b>	<b>-0.3%</b>	<b>1.5%</b>	<b>1.9%</b>	<b>2.0%</b>	<b>2.3%</b>	<b>2.1%</b>	<b>1.6%</b>	<b>1.0%</b>	<b>1.3%</b>	<b>0.7%</b>	<b>1.1%</b>	<b>0.9%</b>