

# The global economic and financial crisis

Initial insights into its impact  
on the postal sector



**UPU** | UNIVERSAL  
POSTAL  
UNION

## Executive summary

The financial turmoil currently causing havoc with the global economy has left its mark on the postal sector. However, as our survey reveals, the effects have not only been negative, but also positive. Unlike other sectors like the auto industry, the postal sector does not show characteristics of an economic depression. Interpretation of the survey results even suggests that postal networks are being increasingly trusted to serve e-commerce development and provide financial services. Its nature is defensive in relation to other sectors. The survey is comprehensive in part in that it encompasses not only postal designated operators (DPOs), but also other major private carriers.

The survey results, which focus on Q3 and Q4 2008, are as follows:

- The economic downturn was reflected in worsening postal performance figures for volumes and revenues, accelerating during Q3 and Q4 2008;
  - The fast pace of the crisis resulted in a rapid deterioration in growth rates, even for those operators and segments still experiencing positive growth;
  - In the segments benefiting from the positive effects of the crisis, the variations in performance between operators' were negligible. The opposite was true, however, when it came to negative effects;
- As regards volumes, postal operators worldwide felt the impact of the crisis strongest in the letter-post segment, with sharp domestic traffic declines of 5.9% during Q4 2008, compared with Q4 of the previous year;
- Express activities suffered the most from the crisis with lower revenues, dropping sharply by 7.9% worldwide in Q4 on a year-to-year basis;
  - This might be explained in part by consumers moving away from high-end services;

- Domestic parcel traffic volumes suffered the least from the crisis, displaying a strong resilience despite the deepening economic downturn in Q4, and even saw 1.1% growth during Q4 on a year-to-year basis;
  - This coincided with record e-commerce sales in a number of countries during Q4 2008;
- The aggregate domestic and international parcels traffic generated positive revenue growth throughout 2008, including a 2.1% growth in revenue worldwide during Q4, against the backdrop of worsening economic conditions;
  - The highest quarterly growth rates for international parcel volumes in Q2 and Q3 coincided with the highest oil price ever;
- International market segments generally appeared more resilient in the economic downturn than domestic segments during 2008, though the deterioration in international postal traffic volumes from Q3 to Q4 was rapid and resulted in uncertain prospects for 2009;
- When confronting the crisis, operators performed more uniformly in the parcel segments than in the letter-post segments;
- Postal and express operators listed on stock exchanges followed a similar path with respect to their reference index and, in some cases, even outperformed their reference index;
- The sector has so far not matched its worst performance seen during the Great Depression in the 1930s, when postal revenues decreased by 12.3% in the United States between 1931 and 1932, and letter-post volumes declined by 16.6% in Germany between 1930 and 1931;
- The number of postal deposits and savings accounts grew at an extremely fast pace, with growth rates above 50% in some countries. A similar phenomenon occurred during the Great Depression.

## I. Introduction

The world economic and financial crisis has the world in its grip and is challenging all stakeholders in unparalleled ways. The crisis will shape numerous economies and industries, including the postal sector, for decades to come. It is also likely to give a significant competitive advantage to service providers offering a higher level of trust in economic and financial transactions.

In order to overcome the threats and seize the opportunities created by the crisis, the postal sector must be able to rely on sound indicators. These indicators could dramatically facilitate decision-making and crisis management and enable a coordinated sector response to the economic downturn. This is why the Universal Postal Union (UPU) has organized the first crisis follow-up, within the framework of a high-level debate scheduled on this topic in the Postal Operations Council (POC), and is now seeking insights from

different perspectives. Section II below deals with the critical values from past crises, while section III presents current quarterly postal data. Lastly, a view from the stock markets is provided in the Annex.

## II. Insights from past crises

The current economic and financial crisis is often compared to the Great Depression of the 1930s. This comparison could become particularly relevant should the current U-shape recession transform into an L-shape near-depression seen in the worst-case scenario.<sup>1</sup> Most experts initially saw the crisis as a short V-shape recession leading to a fast recovery. Current thinking now sees a longer and deeper U-shape global recession lasting two to three years, which could become (with increasing probability, according to worst expectations) an L-shape global near-depression, where a sharp decline in economic activity lasting two to three years is followed by lengthy economic stagnation.

<sup>1</sup> V-shaped recession: a recession usually lasting less than a year, followed by strong and rapid recovery; U-shaped recession: a recession lasting two to three years, followed by a strong recovery; L-shaped near-depression: a recession lasting two to three years, followed by a long period of economic stagnation or very weak growth.

Worst-case-scenario parameters are important for evaluating the resilience of an industry or of sector policies in response to the unfolding crisis. Managers and policymakers alike are conducting an increasing number of “stress-tests” applicable to the worst-case scenario to evaluate tomorrow’s prospects for their firm or sector. Lessons may be learned from history and this knowledge can be one way to determine the critical or threshold values required to conduct this kind of simulation exercise. This is why a number of interesting insights can be derived from the Great Depression of the 1930s:

- Between 1928 and 1934, franking revenues in the United States decreased by 21.9%, with the highest drop (12.3%) occurring between 1931 and 1932 (UPU historical postal statistics);
- Between 1928 and 1934, postal employment in the United States decreased by 17.6% (UPU historical postal statistics);
- Between 1928 and 1934, the number of post offices in the United States dropped by 7.8% (UPU historical postal statistics);
- Postal savings account deposits multiplied eight-fold in the United States in the 1930s, reaching 1.2 billion USD (United Nations DESA);
- In France, the sharpest decrease in franking revenues (24.8%) occurred between 1931 and 1932, following a 15.5% drop between 1929 and 1930 (UPU historical postal statistics);
- In Germany, the largest decrease in letter-post traffic reached 16.6% between 1930 and 1931 (UPU historical postal statistics).

### III. Insights from the current survey

Monitoring the development of the crisis and its impact on postal markets can allow designated postal operators and governments to react and navigate more successfully through the economic downturn. A sector survey was designed to conduct this exercise.

#### III.1 Survey organization

The POC debate aspires to serve as a top-level forum for senior officials to create a timely and coordinated response to the crisis. The survey should provide a basis for discussions. This monitoring exercise could be pursued with a larger number of participants during 2009 at the very least, on the basis of the POC plenary’s response.

The survey is comprehensive in part in that it encompasses not only postal designated operators (DPOs), but also other major private carriers. It includes 15 designated postal operators and the largest private express carriers. Data received directly from DPOs was supplemented by public information released

by other DPOs and private operators on the quarterly variations of their volumes and revenues during 2008. It enabled the authors to collate the figures below, which represent the letter-post market and the overall parcels and express markets. The sample is sufficiently representative and provides a good estimate of market changes. However, coverage of postal operators in this study ranges from 30.9% to some 88.2%, of total volumes worldwide, depending on the market segment. This approach makes it possible to identify the effects of the financial and economic crisis on different segments of the postal market (letter post, parcels and express) for both domestic and international services. Results from individual operators have been weighted according to an estimate of their world traffic share. The year-to-year quarterly variation thus represents an estimate of world growth rates.

#### III.2 Postal traffic (DPOs) and express volumes (DPOs and others) – Domestic service – Variations in 2007–2008

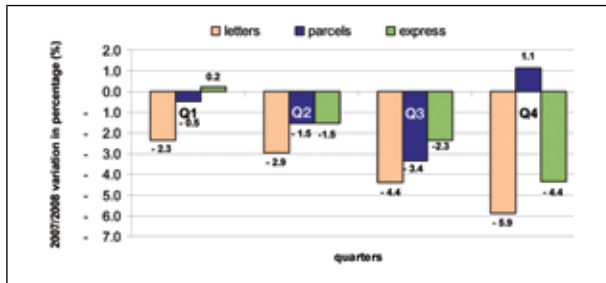
*Estimate of variations of aggregated domestic markets*

Figure 1 describes the 2007–2008 quarterly changes in letter-post volumes (DPOs only), parcel volumes (DPOs only) and express traffic (DPOs and others) in the domestic service. The operators covered represent 66.2% of total worldwide letter-post traffic in the domestic service, and 88.2% of parcel-post traffic. For express traffic in the domestic service, coverage is estimated at between one half and three quarters of total worldwide express volumes and includes two private operators. The following can be noted:

- The domestic letter-post segment felt the brunt of the crisis’s impact, with increasingly negative quarterly volume growth rates, particularly from Q3 onwards, reaching a negative year-to-year quarterly variation of – 5.9% in Q4 2008 (compared with Q4 2007);
  - According to public data provided by the regulatory authority of one of the major mail markets in the world, volumes of standard letters decreased by 12.8% in Q4 and single-piece letters in first-class mail decreased by 9.8%. A stronger resilience was shown by first-class pre-sort letters, with a Q4 decrease of 4.7%;
  - This analysis needs further refinement in order to provide a better understanding of the changes in direct-marketing volumes and other B2C segments, particularly in the area of direct marketing related to financial services;
- Express traffic volumes in the domestic service also decreased by 4.4% in Q4;
- Parcel volumes initially saw a decline ranging from – 0.5% in Q1 to – 3.4% in Q3, before recovering by 1.1% on a year-to-year basis in Q4;
  - Although this growth is difficult to explain, it should be noted that e-commerce either

achieved record sales during Q4 2008 or showed a very strong resistance to the crisis, as was observed in Spain, France, Switzerland, Great Britain, United States of America and others, according to numerous press articles.

Figure 1: World growth rates of domestic postal (DPOs only) and express traffic (DPOs + others)

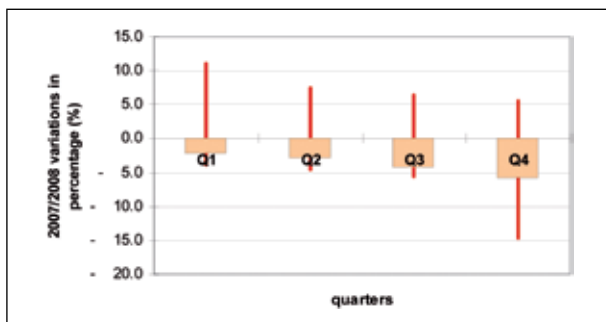


#### Variations in performance in domestic markets

The variations in performance shown by postal operators can also help to understand the extent to which the effects of the crisis were spread out among sector operators. Figure 2 highlights the range of percentage variations for domestic letter post between the best and worst performers for each quarter on a year-to-year basis, as indicated by the red vertical line (the weighted worldwide variation corresponding to the light-orange rectangle). It shows that:

- Q4 had the largest gap during the one-year period between the best performer (+ 5.6%) and the worst performer (- 14.6%);
- Over Q3 and Q4, negative variations ranged from - 2.8% to -14.6%, with most decreases larger than 4.5%;
- Over Q3 and Q4, the vast majority of operators showed negative variations in volumes.

Figure 2: Worst-best performer chart for domestic letter post (DPO volumes only)

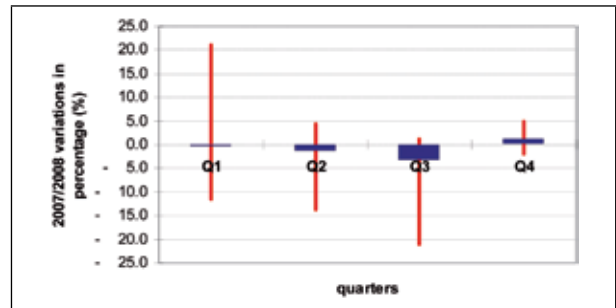


For domestic parcels, Figure 3 indicates the difference between the worst and best performers for each quarter. It shows that:

- The worst-best performer gap narrowed considerably in Q4, alongside a large improvement in parcel volume performance;

- A majority of operators showed positive variations in volumes in Q4;
- There was a huge bandwidth between the best and worst performers in Q1.

Figure 3: Worst-best performer chart for domestic parcels (DPO volumes only)



Figures 2 and 3 also suggest an asymmetric reaction by the sector with regard to good and bad prospects. Positive domestic prospects for parcels seem to be associated with a more homogeneous performance, while negative domestic prospects for letter-post are linked to an increased heterogeneity in volume variations. This could also mean that some operators are more resilient than others in an economic downturn.

### III.3 Postal traffic (by DPOs) and express volumes (DPOs and others) – International service – Variations in 2007–2008

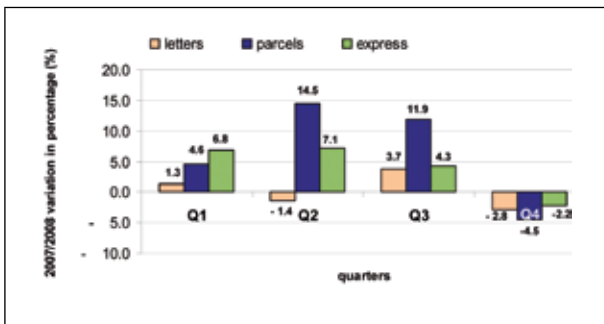
#### Estimate of variations of aggregated international markets

Figure 4 describes the 2007–2008 quarterly growth rates for letter post (DPOs only), parcels (DPOs only) and express (DPOs and others) in the international service. The operators covered represent 31% of total international letter-post traffic worldwide and 58% of total parcel-post traffic. For international express traffic, coverage is estimated at between one half and three quarters of total express volumes worldwide and includes two private operators. The year-to-year variations in percentage thus represent world growth rates. The following can be noted:

- Letter post is more stable internationally than in the domestic sector, with quarterly volume variations ranging from + 3.7% to - 2.8% in 2008 (compared with the same quarter of the previous year);
- The aggregate evolution in international parcel post is at odds with the domestic segment: after increasing at rates between 4.6% and 14.5% during the first three quarters, it decreased by 4.5% in Q4;

- o Unlike the domestic parcels segment, international parcels did not appear to benefit from the e-commerce boom in Q4;
- o The highest quarterly growth rates for international parcel traffic in Q2 and Q3 coincide with the highest oil price ever;
- International express services experienced decreasing growth rates from Q2 onwards, moving from a positive growth rate in volume of 7.1% in Q2 to a negative rate of -2.2% in Q4; nevertheless, they still performed better than domestic express services;
- Regardless of the international segment under study, the Q4 numbers show a clear very rapid deterioration in market conditions when compared with the positive Q3 numbers.

Figure 4: World growth rates for international postal traffic (DPOs only) and express (DPOs + others) (dispatch)



#### Variations in performance in international markets

Figure 5 points out an interesting feature of the international letter post segment relating to the best-worst performer gap. Although the aggregated worldwide volumes in international letter-post services seem more stable than domestic letter volumes in the face of the current economic downturn, the range of variation between postal operators is wider and does not seem to decrease with the unfolding crisis.

Figure 5: Worst-best performer chart for the international letter post (dispatch, DPOs only)

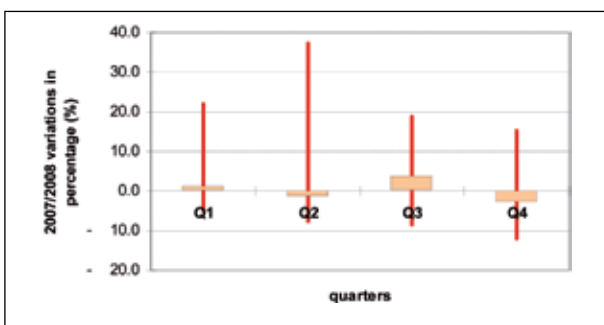
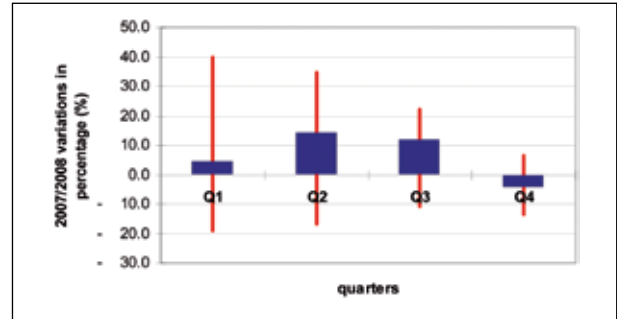


Figure 6 confirms a more homogeneous evolution in international parcel-post volumes for postal opera-

tors when confronting the crisis. This pattern coincides with what was already noted above for domestic parcel post with respect to the range of performance.

Figure 6: Worst-best performer chart for the international parcel-post (dispatch, DPO only)

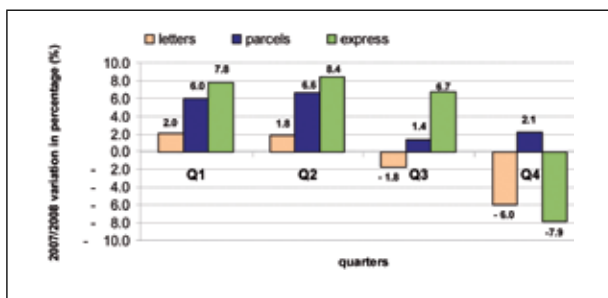


### III.4 Postal traffic (DPOs) and express revenues (DPOs and others) – Domestic and International services– Variations in 2007–2008

Figure 7 presents the 2007–2008 worldwide evolution of postal traffic and express revenues. The operators covered represent 62% of total letter-post revenues worldwide and 48% of total parcel-post revenues (domestic and international services). For express revenues, coverage is estimated at between one half and three quarters of total worldwide express volumes and includes two private operators. After a first semester of positive performance for revenue, operators faced a very rapid decline in revenue growth in Q3 and Q4 2008 (compared with the previous year), moving from positive growth results to overall negative results in Q4, with the exception of parcels. Starting from Q1 2008, the growth rate for letter-post revenues ranged from a high of 2.0% to a low of -6.0% in Q4. Parcel post lost a large share of its revenue growth, moving from a peak of 6.6% growth in Q2 to 2.1% in Q4. Express services faced even sharper decreases in revenue, with -7.9% in Q4, while revenues (one cannot neglect the impact of fuel surcharges following the record oil prices) were still growing at a rate of 8.4% in Q2. The Q4 drop may be related in part to the move by consumers away from high-end services.



Figure 7: World growth rates of postal traffic revenues (domestic + international service)



### III.5 Postal financial services

Many postal operators offer financial services themselves or in partnership with others. The following effects were noted only a few months into the crisis:

- For PostFinance, the financial branch of Swiss Post, 2008 was an exceptional year compared with 2007:
  - The number of new customers grew by 55%;
  - The number of new accounts grew at a rate of 71%;
  - The amount of deposits reached an annual growth rate of 12.8%;
  - The average newly deposited amount per account was 18,971 CHF, pointing to small and medium-sized depositors;
- The French Postal Bank saw a remarkable 7% growth rate in the total amount of deposits;
  - This probably reflects even higher growth rates for new customers and accounts, as seen in the Swiss experience above;
- In Germany, the postal bank also reported record numbers:
  - New savings were up 58% compared with the previous year;
  - Its market share increased by 9.4%;
- The postal operator of an industrialized country saw its number of deposit and saving accounts increase four-fold.

## IV. Conclusion

This survey provides a number of initial insights into the impact of the economic and financial crisis on the postal sector. Unlike other sectors like the auto industry, the postal sector does not show the characteristics of an economic depression. Its nature is defensive in relation to other sectors. The results even suggest that postal networks are being increasingly trusted to serve e-commerce development and act as financial service providers. Analytical efforts must be pursued and this first step supplemented by data from a larger number of DPOs. The areas covered by this survey could also be extended to include a wider range of postal financial services (e.g. remittances) and future surveys could also examine the effects of the crisis on least developed countries, as distinct from its effects on industrialized countries. This is why cooperation on the transmission of statistical data will be paramount in the coming months.

### Annex: Insights from the markets

With five designated postal operators and two express carriers listed on stock exchanges, it can be useful to compare the evolution of their share price with their reference index. The period chosen for this exercise corresponds to the six months covering the worsening financial crisis (from August 2008 to January 2009). Figure 8 shows that:

- While the share prices of some operators were closely correlated with their reference index, those of other operators evolved much more positively than the market;
- In fact, the two designated postal operators whose share prices evolved much more positively than the market either have the majority of their equity in the hands of their government or have some special share resulting in strong governmental control of them;
- The share prices of global and integrated operators suffered more from the bear market than those of regional or national players.



Figure 8: Evolution of share prices of listed postal operators and express carriers since Sept. 2008

