



## TEXAS

**“Texas’ economic expansion continued amid increased energy sector activity and labor market improvements.**

Crude oil prices ticked down but remained elevated, prompting record-level production in the Lone Star State despite pipeline bottlenecks in the Permian Basin. Texas added 32,000 nonfarm jobs, and unemployment reached historic lows. Labor market tightness lifted personal incomes and pressured hourly earnings upward. Inflationary pressures, however, continued to weigh on Texans’ purchasing power. On the trade front, exports declined 3.6 percent as firms adjusted to retaliatory tariffs and barriers in China. The announcement of the U.S.-Mexico-Canada Trade Agreement, however, resolves the uncertainty regarding Texas’ largest trade partners.” – August - Real Estate Center – Texas A&M (REC)

## AUSTIN

**“Austin economic growth was moderate in August.** The Austin Business-Cycle Index stabilized but was below its long-term trend. Job growth rebounded after a sharp drop in July, while the unemployment rate ticked up slightly. Recently released gross domestic product (GDP) data for 2017 show a significant expansion in Austin metro output.” – October 2018 – Austin Economic Indicators

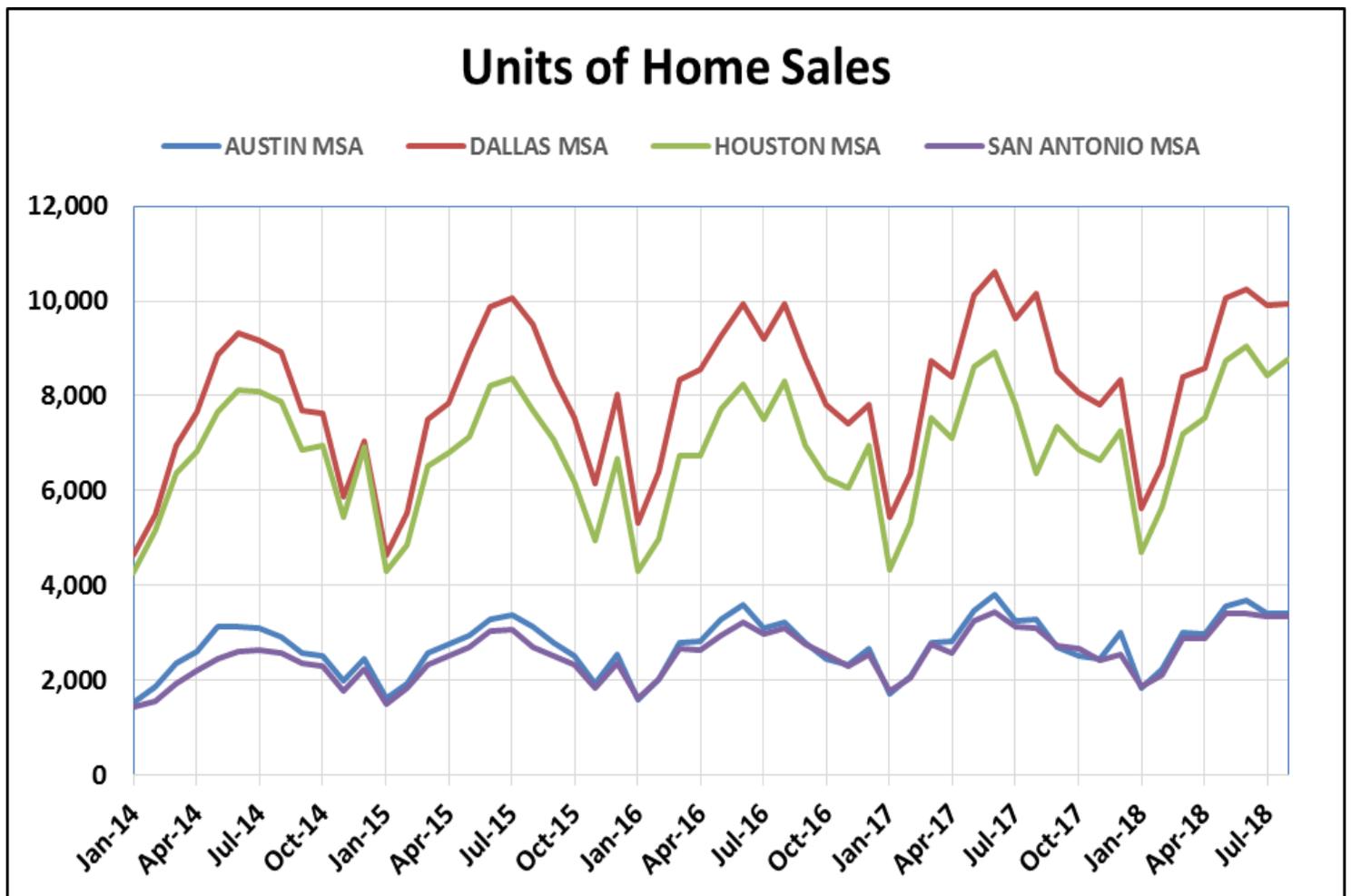


## UNITED STATES

**“The U.S. economy continued to expand at a brisk pace in the third quarter,** based on recent data releases. Robust consumer spending, positive consumer and producer sentiment and a tightening labor market suggest that this expansionary phase might continue through at least the end of 2018. Strong growth has led most inflation measures to approach or exceed the Federal Reserve’s 2 percent target, and long-run expectations remain unchanged.” - Research Department at the Federal Reserve Bank of Dallas

## HOUSING – HOME SALES

“Texas housing sales ticked down 0.4 percent in August after a record-breaking July but maintained an upward trend. Shortages of homes priced below \$300,000 continued to weigh on overall activity. Homes flew off the market at a record pace, corroborating the continued strength of demand. On the supply side, inventories inched forward as developers rushed to satisfy the market.” – August Summary - Texas Housing Insight – REC

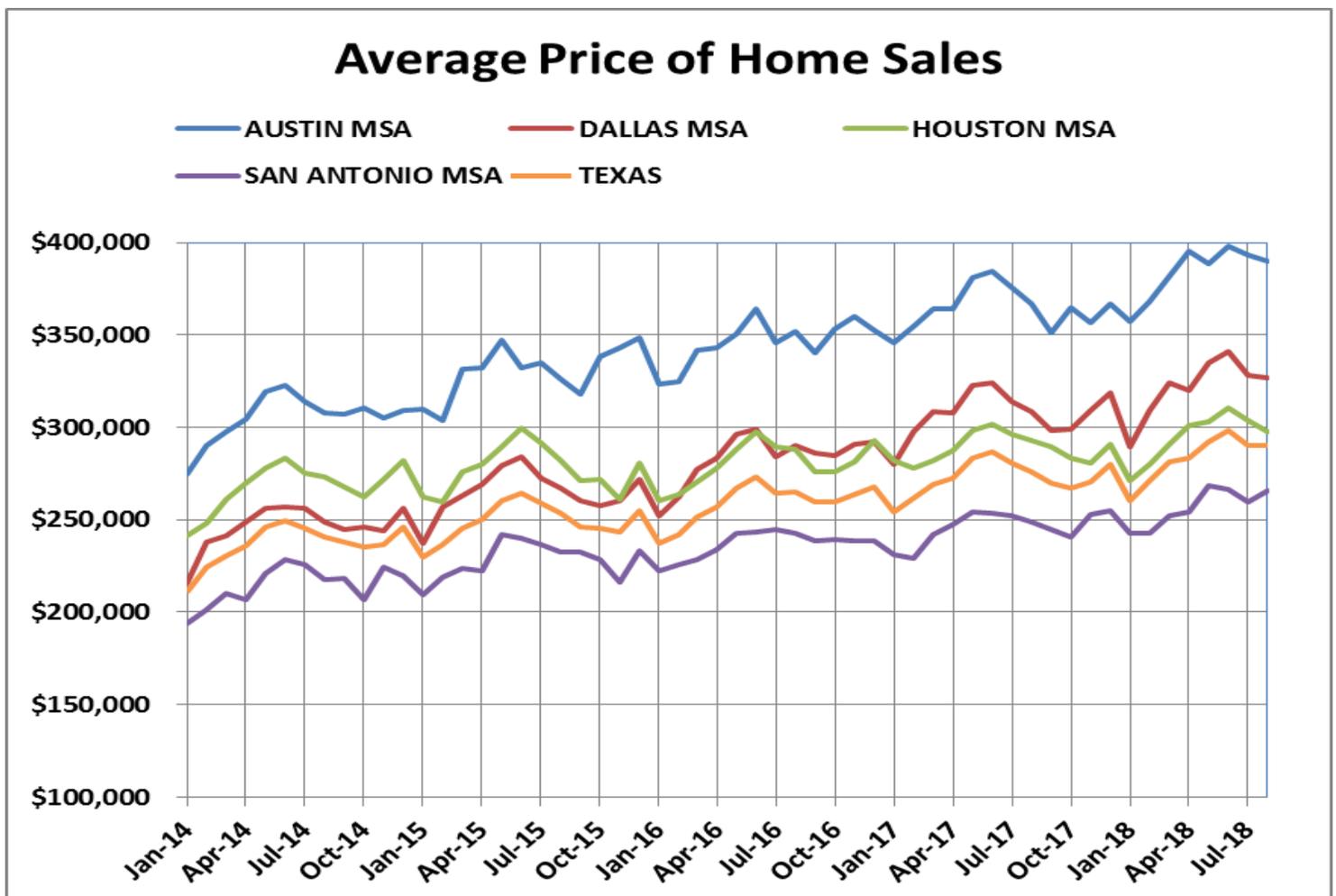


Source: Real Estate Center at Texas A&M University

## HOUSING – AVERAGE SALES PRICE

For a single-unit of residential housing in the Austin MSA, the average August sales price increased [year-over-year] from \$366,780 to \$389,921.

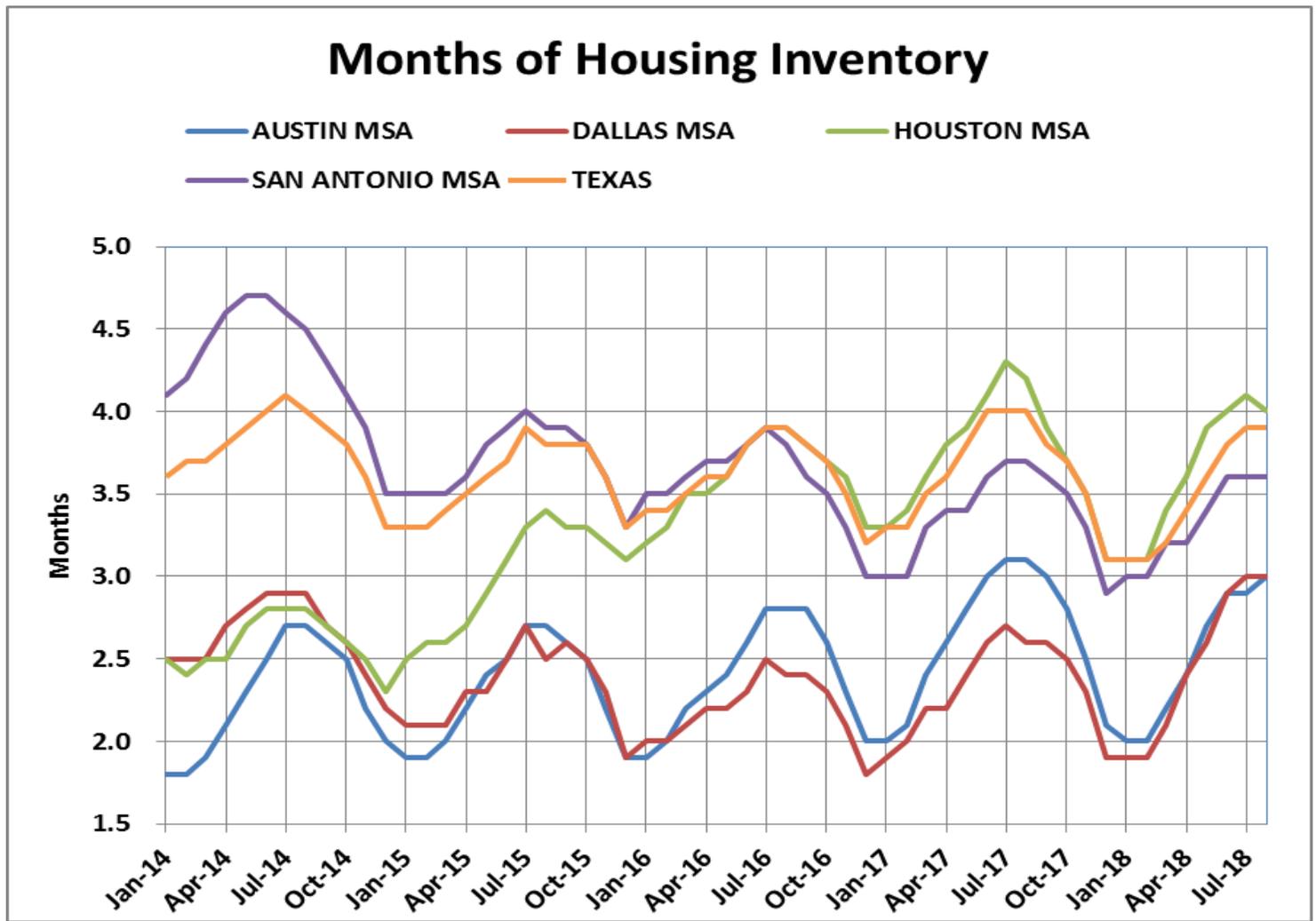
“[Texas] home-price appreciation calmed [compared to July] as a large number of new listings hit the market, and construction shifted towards smaller homes and lot sizes. Prices continued to outpace wage growth, however, challenging affordability across the state. The prospect of rising interest rates could further hinder affordability, particularly at the lower end of the market.” – Texas Housing Insight – REC



Source: Real Estate Center at Texas A&M University

## HOUSING – INVENTORY

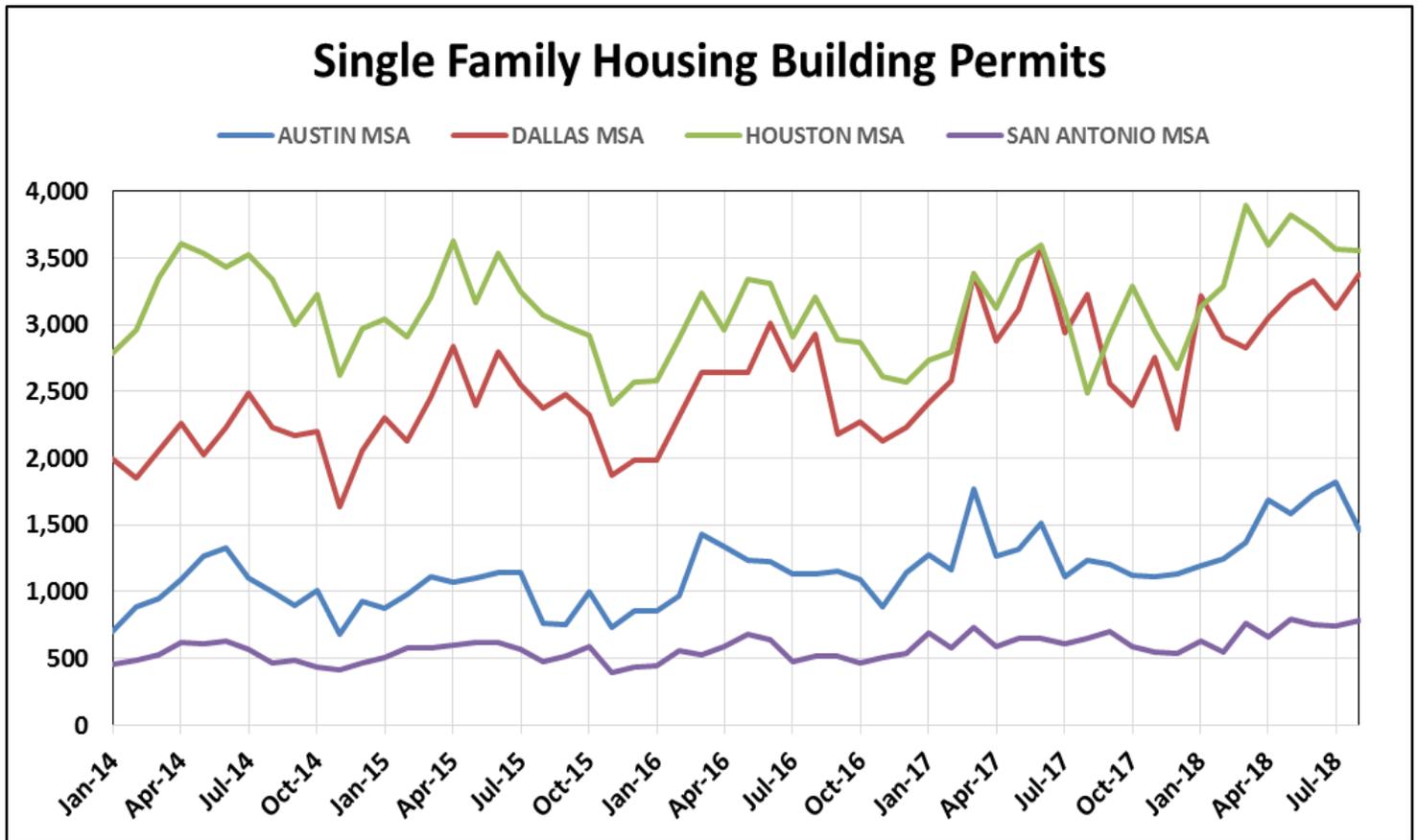
In August 2018, the Austin MSA's had 3.0 months of housing inventory. The Real Estate Center has estimated that “seasonally adjusted; around 6.5 months of inventory is considered a balanced housing market in which neither sellers nor buyers dictate prices.”



Source: Real Estate Center at Texas A&M University

## HOUSING – SINGLE FAMILY BUILDING PERMITS

“[Texas] single-family housing construction permits jumped 14.1 percent to a year-to-date (YTD) high of 10,730 after contracting in the second quarter. **Texas remained the U.S. leader in permits issued, accounting for 16 percent of the national total.** Houston and Dallas-Fort Worth (DFW) topped the metropolitan rankings, issuing 3,560 and 3,385 non-seasonally adjusted permits, respectively. Fort Worth alone issued 987 permits in August. Monthly permits surged to 788 in San Antonio, pushing YTD growth above 27 percent, while Austin sustained 18 percent YTD growth with 1,459 permits issued after reaching a decade-high in July.” – Texas Housing Insight – REC - August 2018

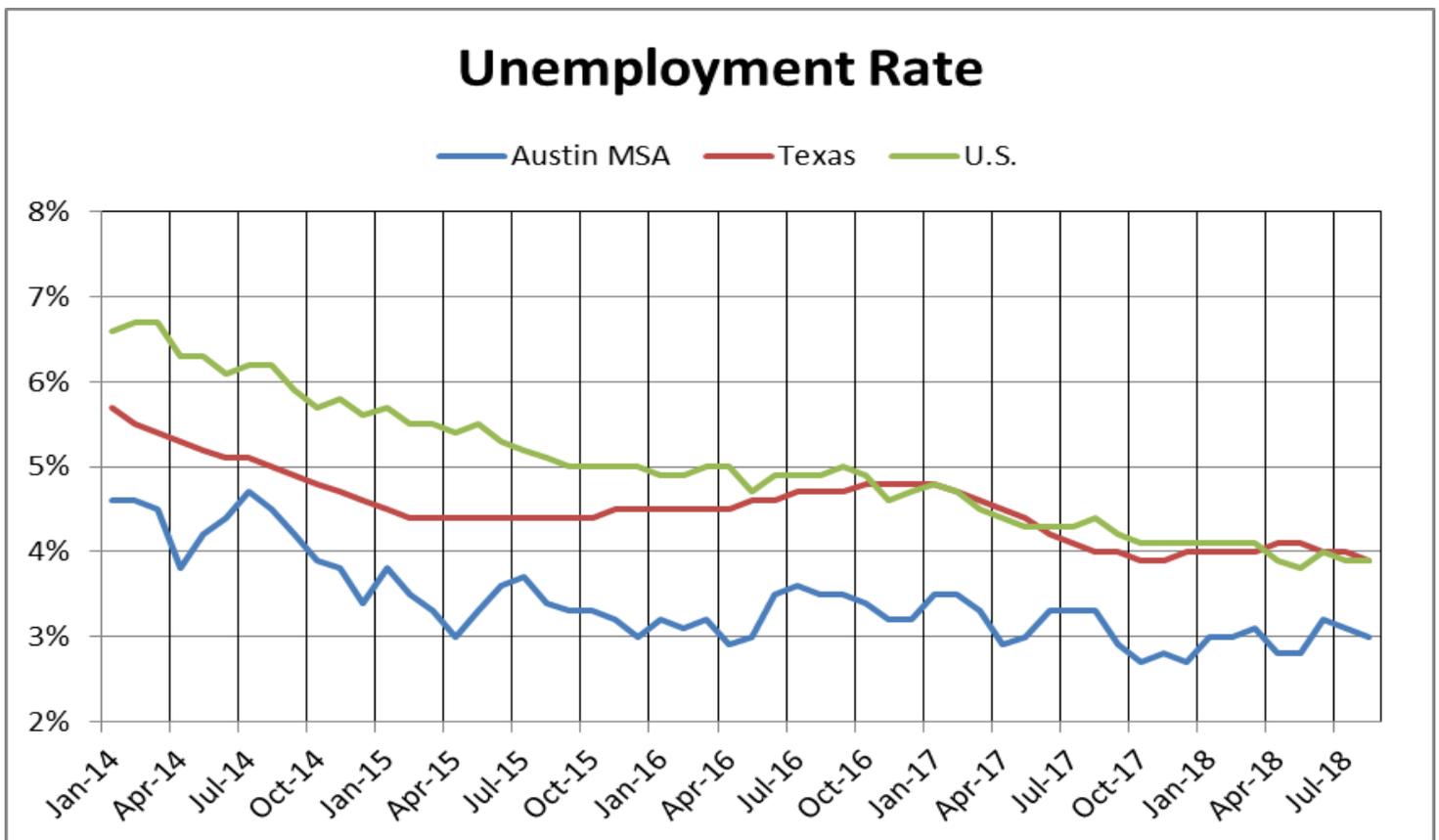


Source: Real Estate Center at Texas A&M University

## JOBS - UNEMPLOYMENT RATES – AUSTIN MSA, TEXAS, U.S.

“Austin MSA’s unemployment rate decreased slightly to 3.0 percent in August. It is [0.9] of a percentage point below the state and national rates.”

“The Texas economy is likely growing above potential, which means there may be capacity constraints acting as bottlenecks or speed limits on the expansion. Tight labor markets, for example, have made hiring difficult for local firms. **Two-thirds of Texas firms noted difficulties finding qualified workers** in the August release of the Dallas Fed’s TBOS Special Questions survey. Meanwhile, **the state unemployment rate has never been this low for this long, at least not since the advent of modern recordkeeping.** The state unemployment rate moved down to 3.9 percent in August, and several metros have unemployment rates below the state’s average, including Austin, Dallas–Fort Worth, Midland–Odessa and San Antonio.” - Texas Economic Update – Federal Reserve Bank of Dallas – October 2018

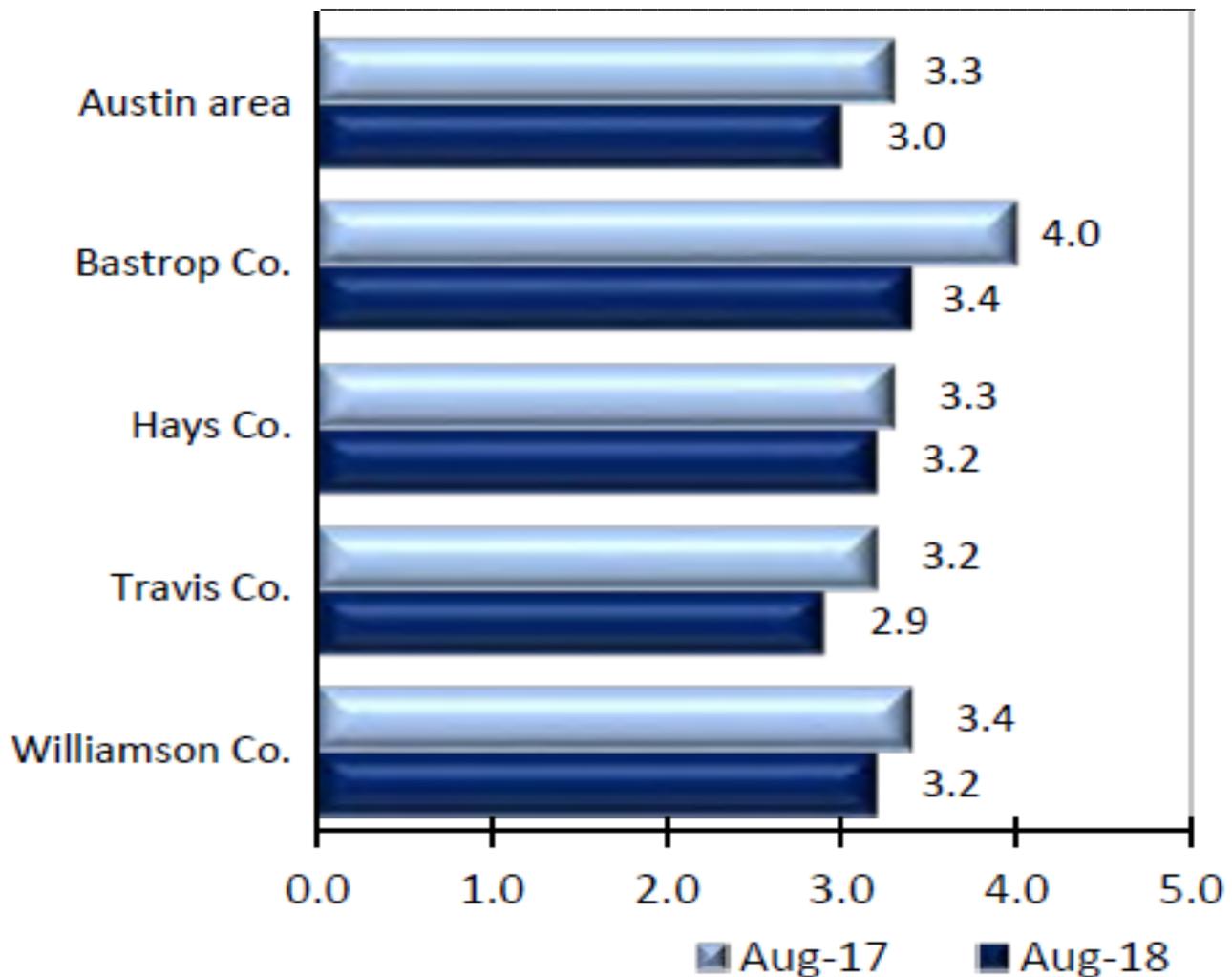


Note: U.S. and Texas seasonally adjusted, Austin MSA not seasonally adjusted.  
Source: Bureau of Labor Statistics

## JOBS - UNEMPLOYMENT RATE – AUSTIN AREA

Below is a chart taken from the October 3, 2018, Austin Area Economic Summary prepared by the U.S. Bureau of Labor Statistics. It illustrates that unemployment rates throughout the Austin area have declined compared to prior year.

Unemployment rates

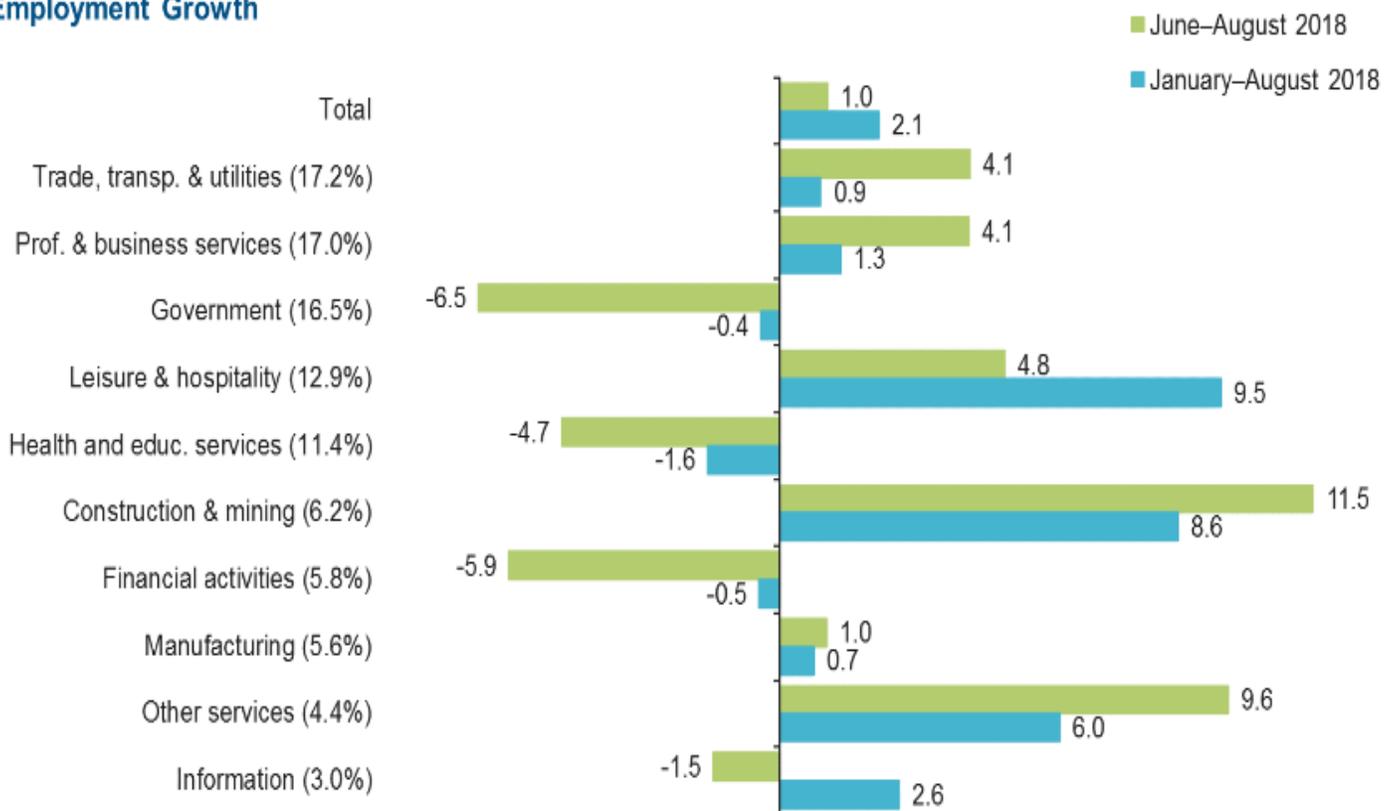


Source: U.S. BLS, Local Area Unemployment Statistics.

## JOBS – GROWTH RATE – AUSTIN

“Austin employment growth was modest over the three months through August, increasing at an annualized pace of just 1.0 percent. Growth by sector was mixed, with health care and education services, finance and government all shedding jobs at a significant rate. Meanwhile, **growth in construction and mining surged, adding nearly 1,800 jobs**. Professional and business services saw a significant rebound, with a 12.5 percent rise in administrative services. Trade, hospitality and other services categories also rose at a robust pace.” - Austin Economic Indicators - Dallas Fed – October 2018

### Employment Growth



NOTES: Data show seasonally adjusted and annualized percentage employment growth by industry. Numbers in parentheses represent share of total employment and may not sum to 100 due to rounding.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; adjustments by the Dallas Fed.

## JOBS – NONFARM EMPLOYMENT BY INDUSTRY

The chart below shows the **year-over-year changes in employment** by major industry sector. The total **Austin area nonfarm employment has increased by 33,600 jobs (3.3%)** from prior year.

Austin area employment (numbers in thousands)	Aug. 2018	Change from Aug. 2017 to Aug. 2018	
		Number	Percent
Total nonfarm	1,063.5	33.6	3.3
Mining, logging, and construction	67.4	4.8	7.7
Manufacturing	58.1	0.0	0.0
Trade, transportation, and utilities	186.7	9.0	5.1
Information	31.0	0.7	2.3
Financial activities	61.4	0.8	1.3
Professional and business services	187.2	9.9	5.6
Education and health services	119.0	-1.9	-1.6
Leisure and hospitality	136.2	9.5	7.5
Other services	48.0	2.6	5.7
Government	168.5	-1.8	-1.1

Source: U.S. BLS, Current Employment Statistics.

## JOBS – HOW DOES THE TEXAS UNEMPLOYMENT RATE COMPARE?

In August 2018, Texas was tied with Delaware, North Carolina, and Wyoming at number 27.

State	August 2018 (p)	Rank
Hawaii	2.1	1
Iowa	2.5	2
North Dakota	2.6	3
New Hampshire	2.7	4
Idaho	2.8	5
Nebraska	2.8	5
Vermont	2.8	5
Colorado	2.9	8
Minnesota	2.9	8
South Dakota	3.0	10
Virginia	3.0	10
Wisconsin	3.0	10
Utah	3.1	13
Maine	3.2	14
Kansas	3.3	15
Missouri	3.3	15
South Carolina	3.4	17
Indiana	3.5	18
Arkansas	3.6	19
Massachusetts	3.6	19
Montana	3.6	19
Tennessee	3.6	19
Florida	3.7	23
Oklahoma	3.7	23
Georgia	3.8	25
Oregon	3.8	25

State	August 2018 (p)	Rank
Delaware	3.9	27
North Carolina	3.9	27
Texas	3.9	27
Wyoming	3.9	27
Rhode Island	4	31
Alabama	4.1	32
Illinois	4.1	32
Michigan	4.1	32
Pennsylvania	4.1	32
California	4.2	36
Maryland	4.2	36
New Jersey	4.2	36
New York	4.2	36
Connecticut	4.3	40
Kentucky	4.4	41
Nevada	4.5	42
Washington	4.5	42
Arizona	4.6	44
New Mexico	4.6	44
Ohio	4.6	44
Mississippi	4.8	47
Louisiana	5	48
West Virginia	5.3	49
Alaska	6.7	50
<b>Footnotes</b>		
(p) Preliminary		

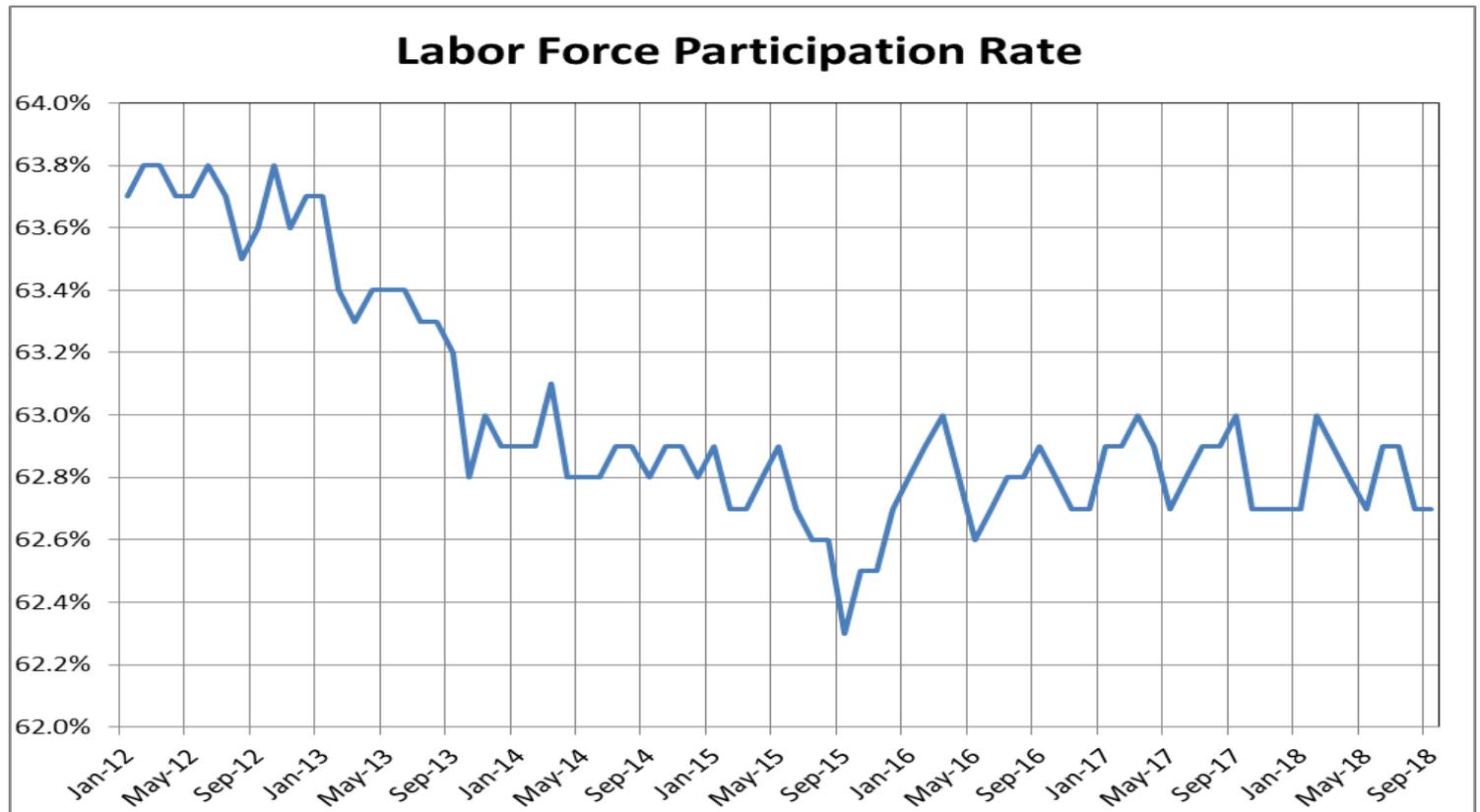
Source of Data: Bureau of Labor Statistics

## JOBS – LABOR PARTICIPATION RATE

“In August, the nation’s civilian noninstitutionalized population, consisting of all people age 16 or older who were not in the military or an institution, reached 258,066,000. Of those, 161,776,000 participated in the labor force by either holding a job or actively seeking one.

The 161,776,000 who **participated in the labor force equaled 62.7 percent** of the 258,066,000 civilian noninstitutionalized population, slightly below last month's 62.9 percent participation rate. **The participation rate remains stubbornly low as a growing number of people leave the labor force, led by baby-boom retirees.**

BLS noted that the percentage of Americans not in the labor force -- meaning they neither have a job nor are looking for one -- increased to a record 96,290,000 in August.” - CNS News – September 2018



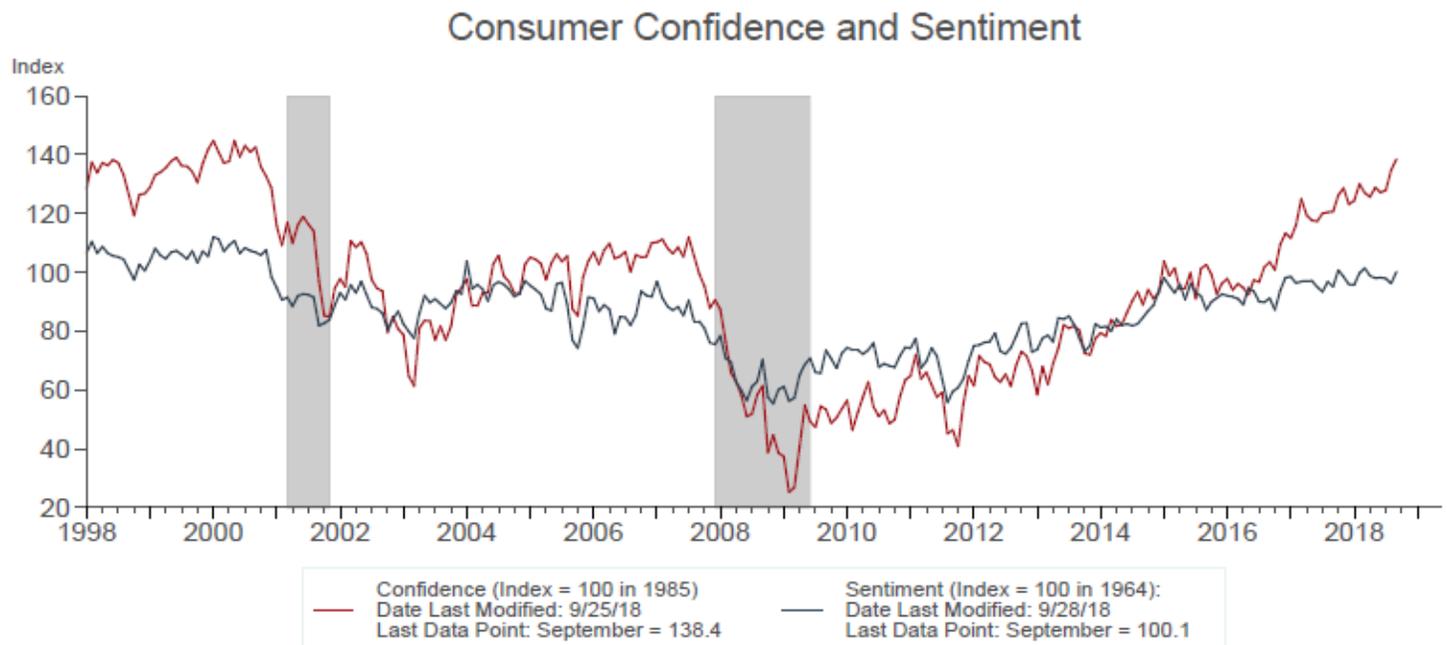
Source of Data: Bureau of Labor Statistics

The **labor force participation rate**, as defined by the Bureau of Labor Statistics (BLS), is “the percentage of the population [16 years and older] that is either employed or unemployed [that is, either working or actively seeking work].”

## CONSUMER CONFIDENCE AND SENTIMENT – U.S.

“After a considerable improvement in August, **Consumer Confidence** increased further in September and **hovers at an 18-year high**,” said Lynn Franco, Director of Economic Indicators at The Conference Board. “The September reading is not far from the all-time high of 144.7 reached in 2000. Consumers’ assessment of current conditions remains extremely favorable, bolstered by a strong economy and robust job growth. The Expectations Index surged in September, suggesting solid economic growth exceeding 3.0 percent for the remainder of the year. These historically high confidence levels should continue to support healthy consumer spending, and should be welcome news for retailers as they begin gearing up for the holiday season.” - The Conference Board – September 2018

Survey of Consumers chief economist, Richard Curtin, commented “**Consumer sentiment** remained at very favorable levels in September, with the Index **topping 100.0 for only the third time since January 2004**. Consumers anticipated continued growth in the economy and expected the unemployment rate to continue to slowly decline during the year ahead. The single issue that was cited as having a potential negative impact on the economy was tariffs.”



NOTE: Gray shaded areas indicate NBER recessions.

SOURCES: The Conference Board; Survey of Consumers; Survey Research Center, U. of Michigan.

U.S. consumer **confidence** index (CCI) is defined as “**the degree of optimism on the [current] state of the economy** that consumers are expressing through their activities of savings and spending.” – Wikipedia

U.S. consumer **sentiment** is defined as “the indicator of the **future course of the national economy**.” – Investopedia

## BUSINESS CYCLE INDEX – AUSTIN MSA

“The **Austin Business Cycle Index expanded** at a **5.0 percent** annualized rate in August, below the long-run average of 6.0 percent. August saw a sharp rebound in job growth, aiding growth in the overall index, while the unemployment rate has held at or below 3.0 percent since August 2017.” – Austin Economic Indicators - Dallas Fed

### Austin Business-Cycle Index

Percent, month/month\*



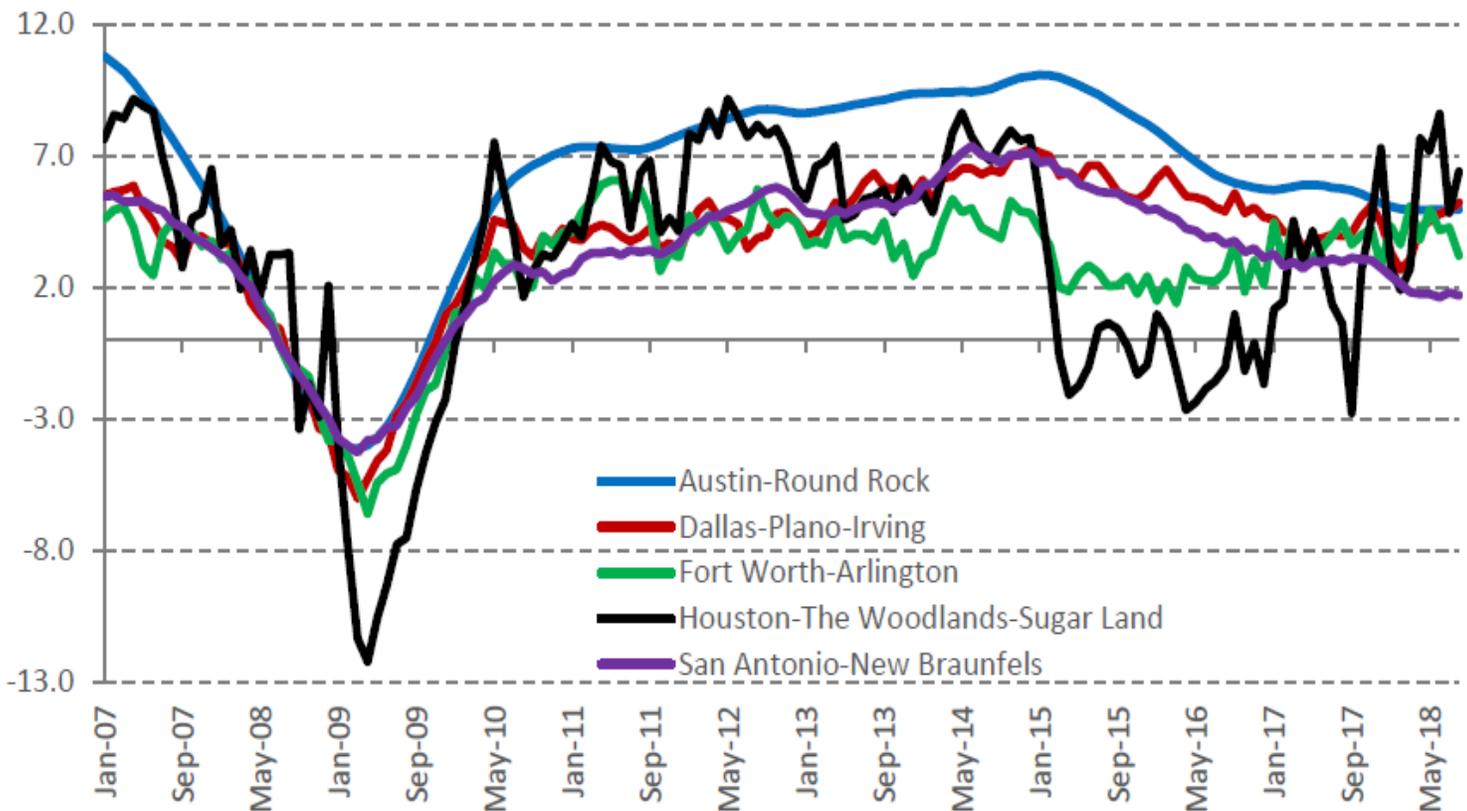
\*Seasonally adjusted, annualized rate.  
SOURCE: Dallas Fed.

**Business Cycle Indexes** are meant to reflect broad movements in local economic conditions. The Dallas Fed states that “the [local area] indexes are constructed based on the aggregated movements in the local area unemployment rate, nonagricultural employment, inflation-adjusted wages, and inflation-adjusted retail sales. The weights of the components are statistically optimized for each metropolitan area in order to best capture the underlying cyclical movements in the local area economy.”

## BUSINESS CYCLE INDEX – MAJOR METROS

“Houston was the primary beneficiary of the energy resurgence, pushing SAAR [Seasonally Adjusted Annualized Rate] growth up 6.4 percent. The Austin and Dallas and business cycles boomed 5.0 and 5.2 percent, respectively. Fort Worth’s index settled at 3.2 percent. In San Antonio, employment contractions slowed growth to just 1.7 percent.” – Outlook for the Texas Economy – REC – October 2018

**Major Metros Business Cycle Index**  
(Quarter-over-Quarter Percent Change)

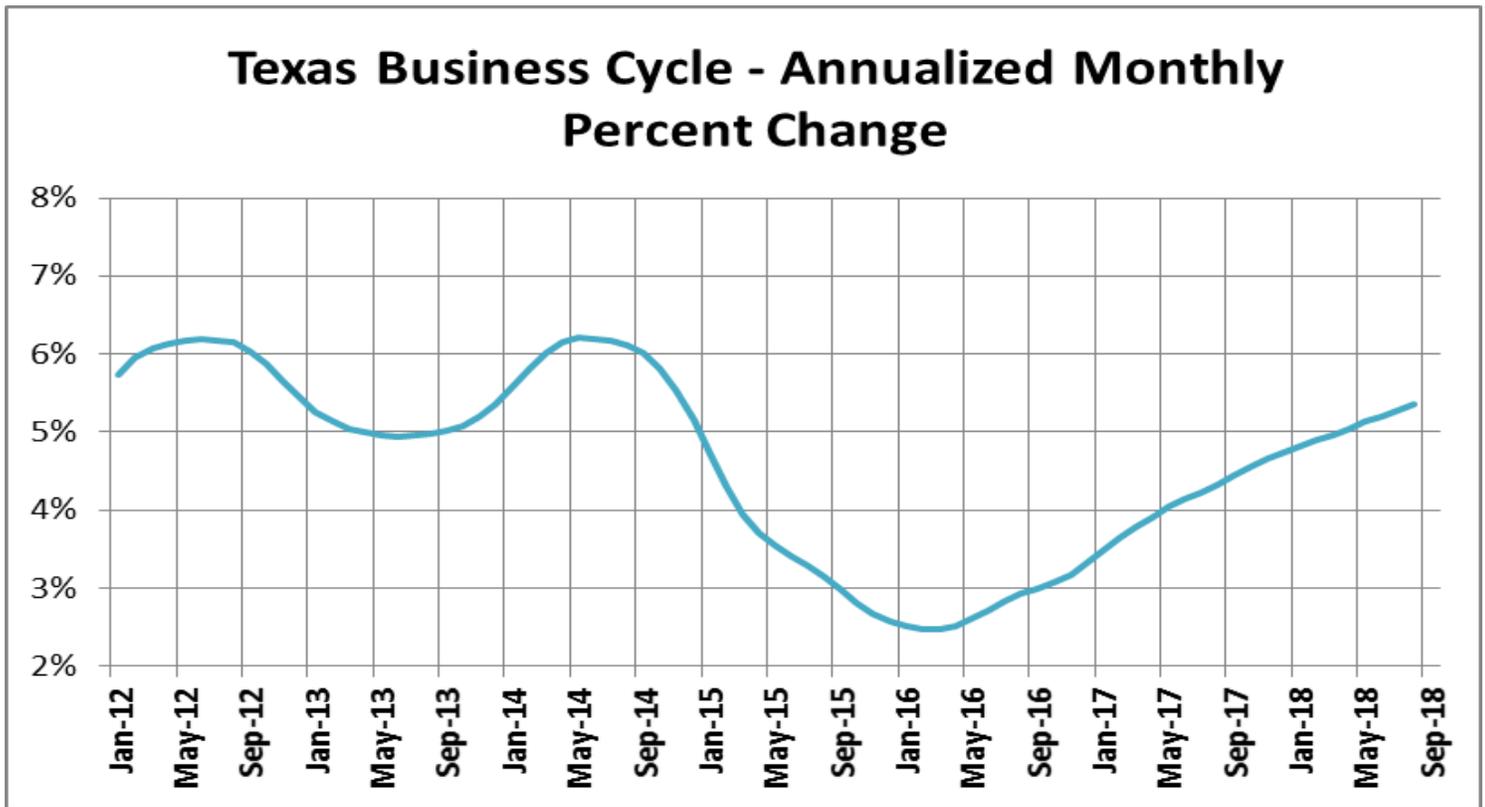


Source: Federal Reserve Bank of Dallas  
Provided by: Real Estate Center at Texas A&M University

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## BUSINESS CYCLE INDEX – TEXAS

“Contemporaneous data suggest an accelerated expansion through 2018 amid a tightening labor market and thriving energy sector. Economic activity rose 5.4 percent in August on a seasonally adjusted annualized rate (SAAR) according to the **Dallas Fed’s Business-Cycle.**” – Outlook for the Texas Economy – REC – October 2018

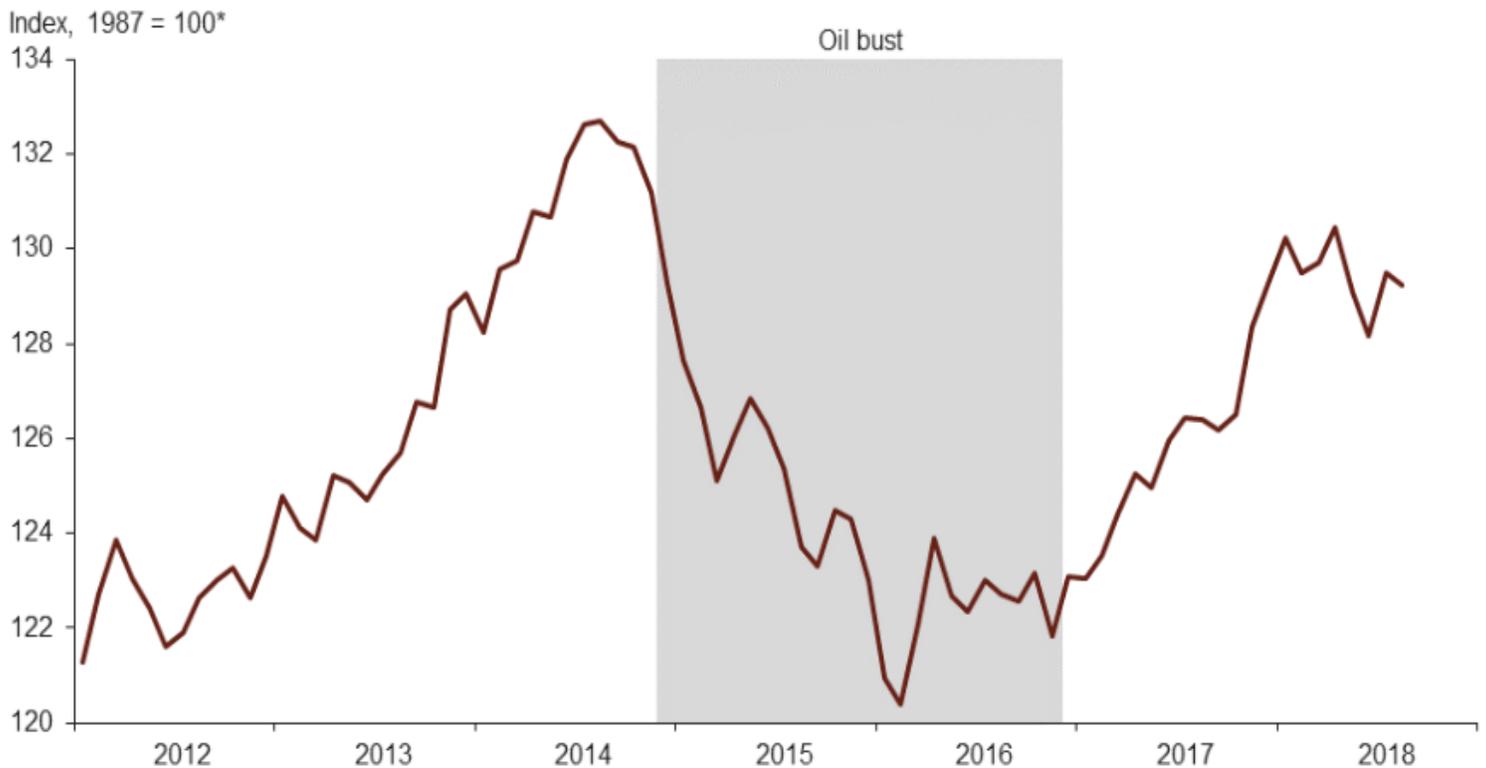


Source: Federal Reserve of Dallas - Index, 1987 = 100

“The **Texas Business-Cycle Index** is a single economic statistic that helps gauge the **current state** of the Texas economy. The Texas Business-Cycle Index is constructed using payroll employment, gross state product and the unemployment rate.” – Dallas Fed

## LEADING INDEX – TEXAS

“In August, the estimated value of the **index dipped 0.2 percent but was 7.4 percent above its low point during the oil bust.** The Texas value of the dollar was the largest drag on the index in August, while the Texas stock index was the most significant positive contributor.” – Texas Economic Indicators – Dallas Fed – September 2018



\*Seasonally adjusted.

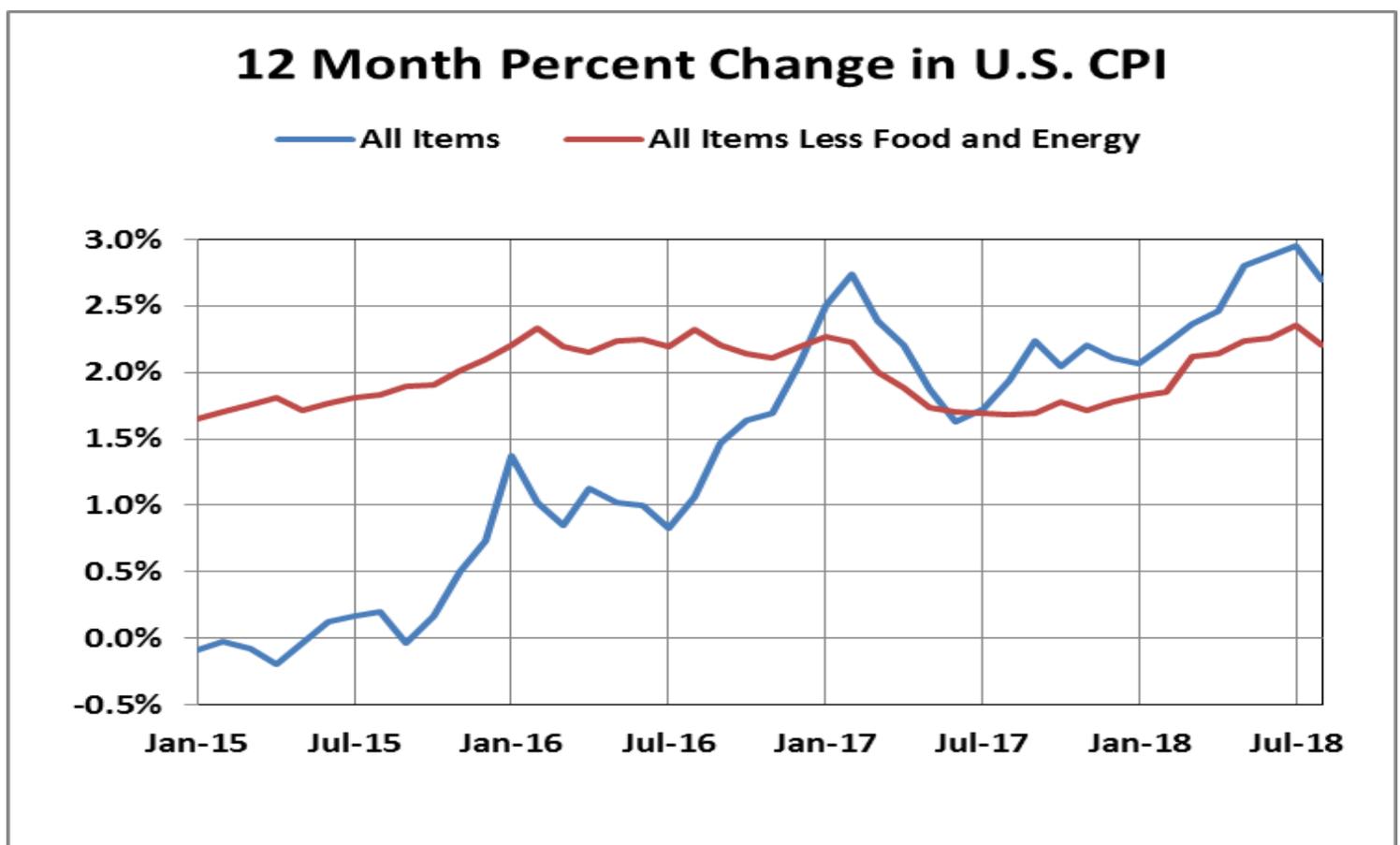
NOTE: Oil-bust shading represents Texas energy-sector employment peak to trough, December 2014 to November 2016.

SOURCE: Dallas Fed.

Dallas Fed has defined the **Texas Leading Index** as the “single summary statistic that sheds light on **the future of the State's economy.**” The Texas Leading Index is made up of eight leading indicators that have been shown to change direction – up or down – before the overall economy. The eight indicators used by the Dallas Fed are the Texas value of the dollar, U.S. leading index, real oil price, well permits, initial claims for unemployment insurance, Texas stock index, help-wanted index and average weekly hours worked in manufacturing.

## CONSUMER PRICE INDEX complete

“The **all items index rose 2.7 percent** for the 12 months ending August, a smaller increase than the 2.9 percent increase for the 12 months ending July. The index for **all items less food and energy rose 2.2 percent** for the 12 months ending August and the energy index increased 10.2 percent; these were both smaller increases than for the 12 months ending July. The food index increased 1.4 percent over the last 12 months, the same increase as for the period ending July.” - BLS – August 2018 - Economic News Release



Source: Bureau of Labor Statistics, not seasonally adjusted, 1982-84=100

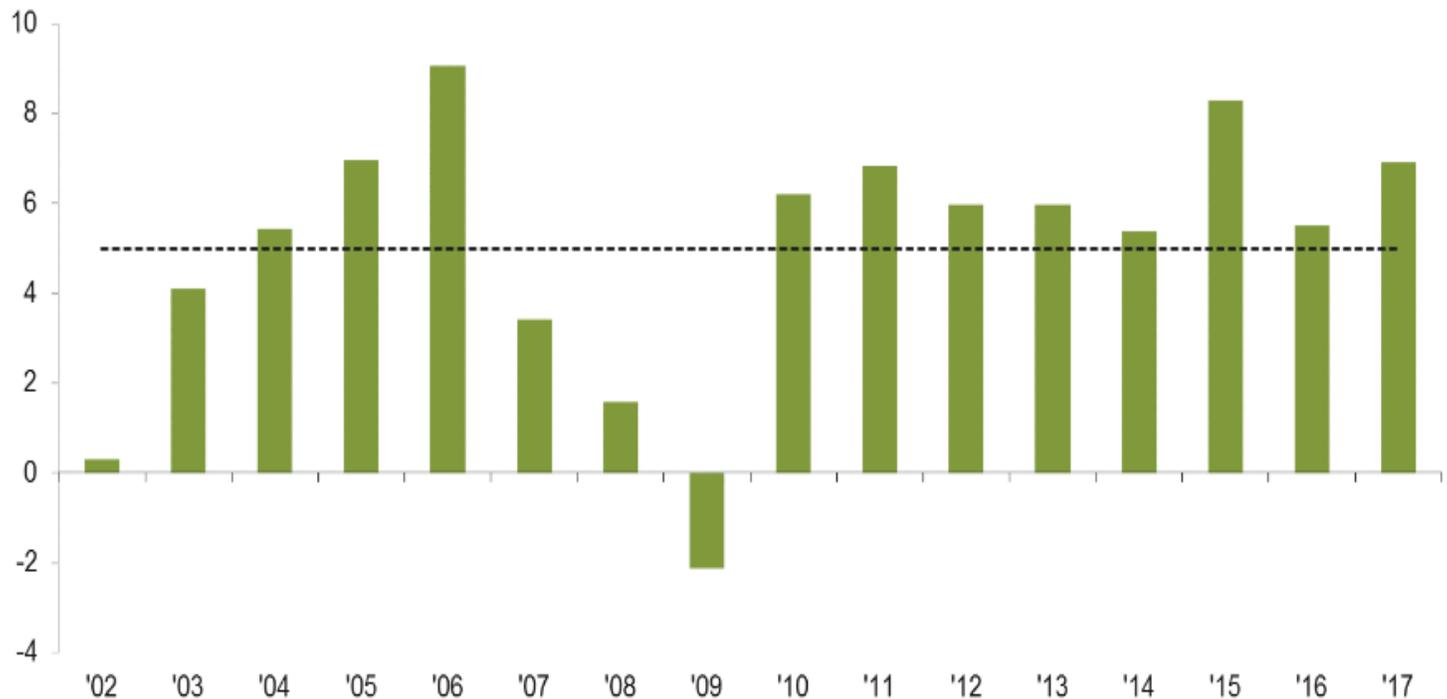
According to the Bureau of Labor Statistics (BLS), “There are a variety of CPI numbers generated each month. In the graph above, two numbers are compared. The first is the **Official CPI Number** that is reported to the media. It is the broadest and most comprehensive CPI and is called the **All Items CPI for All Urban Consumers**. The second one is called the **All items less food and energy**.” The BLS mentions that “Some users of CPI data use this index because food and energy prices are relatively volatile, and these users want to focus on what they perceive to be the ‘core’ or ‘underlying’ rate of inflation.”

## GDP – AUSTIN

“Austin real GDP grew 6.9 percent in 2017, nearly 2 percentage points faster than the long-term average and the fastest pace among U.S. metro areas with a population of more than 2 million. Growth was broad based across industries, with mining, wholesale trade and information services leading with double-digit growth.” - Austin Economic Indicators - Dallas Fed – October 2018

### Real Gross Domestic Product

Percent change, year/year\*



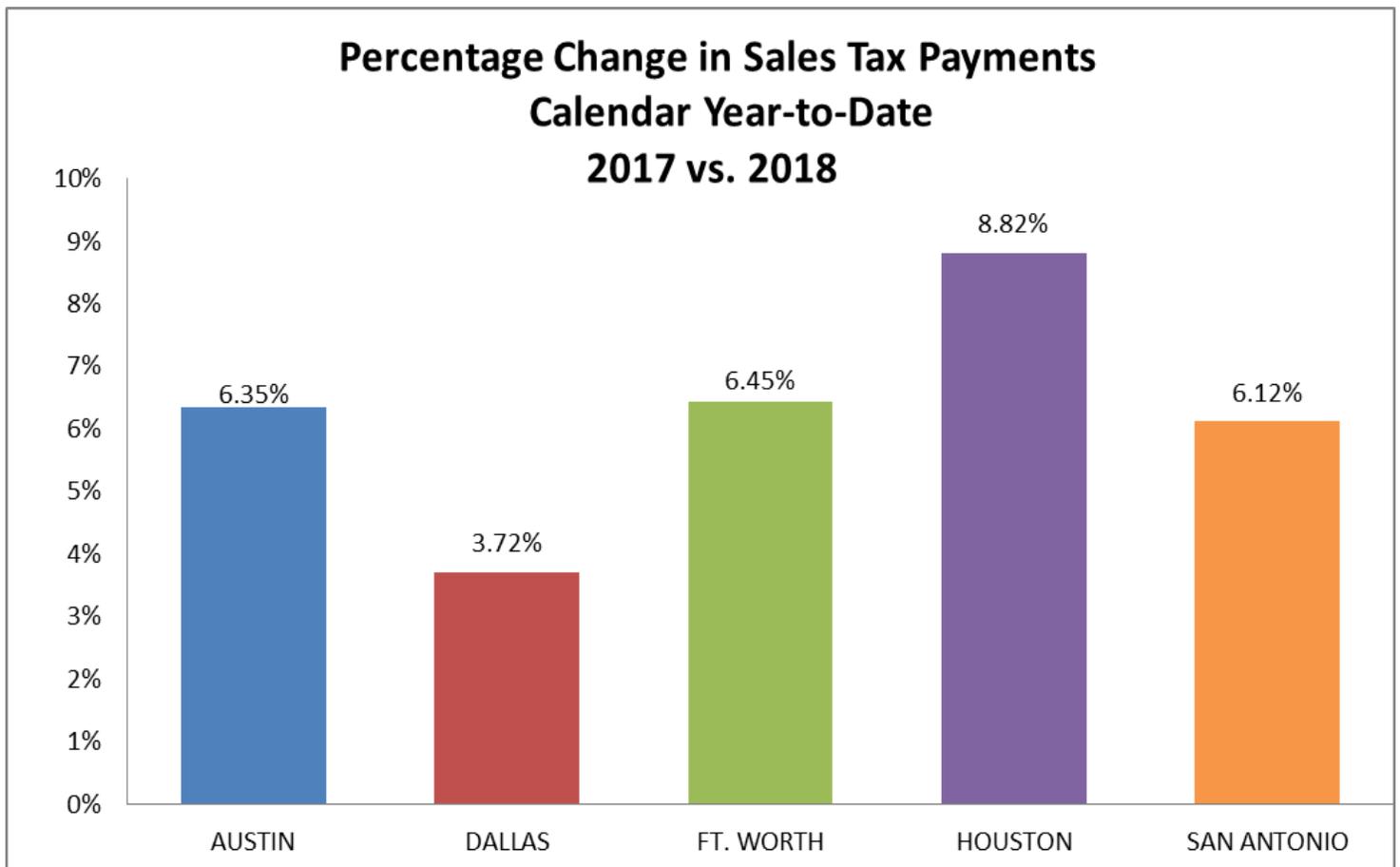
\*Chained 2009 dollars.

NOTE: Dashed line represents long-term average.

SOURCE: Bureau of Economic Analysis.

## SALES TAX – MAJOR METRO

Below is a graph of the 2017 vs. 2018 year-to-date percentage change in Sales Tax Payments made by the State to the five major cities in Texas. Based on the October 2018 report, the increase in **Austin's year-to-date revenue is 6.35% or \$11.1M.**

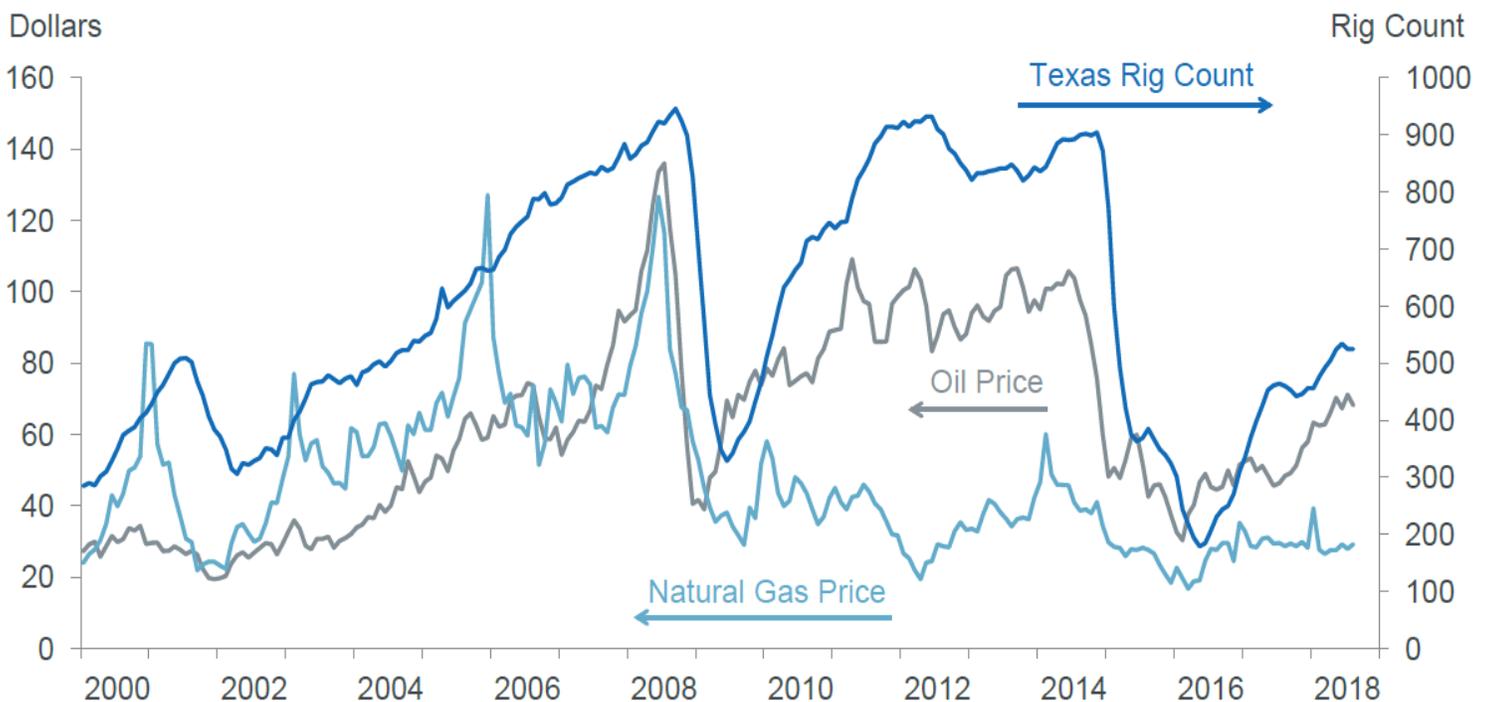


*Source: Texas Comptroller of Public Accounts*

## OIL AND NATURAL GAS

“The average **West Texas intermediate crude oil spot price** fell to \$68.06 per barrel after surpassing \$70 per barrel in July. The U.S.-China trade dispute worried investors and outweighed declines in crude stockpiles. Crude oil production surpassed 4.5 million barrels per day in July, the most ever recorded, and accounted for 41 percent of the national total. The number of **active rigs**, however, declined for the second straight month to 510 as pipeline bottlenecks in the Permian Basin hindered drilling activity. The **Henry Hub natural gas spot price** approached \$3 per million BTU (British thermal units), stretching further from the West Texas Waha hub price, which suffered from similar pipeline constraints.” - October Summary - Outlook for the Texas Economy - REC – Texas A&M University

### Rig Count Flattens After Rising in the First Half of 2018



NOTES: Oil price is dollars per barrel. Natural gas price is dollars per million Btu, multiplied by 10. Data through August 2018.

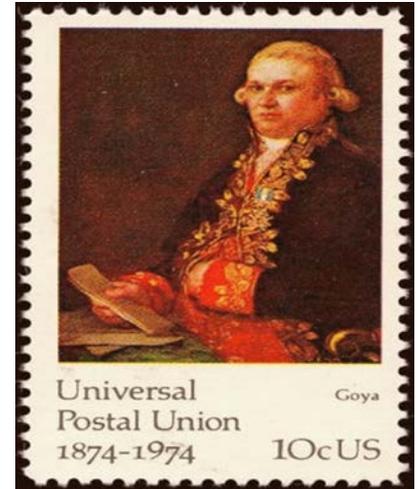
SOURCES: *Wall Street Journal*; Baker Hughes; U.S. Energy Information Administration; Haver Analytics.

Provided by Federal Reserve of Dallas – Your Texas Economy – September 2018

## IN-DEPTH - UNIVERSAL POSTAL UNION

### OVERVIEW

The U.S. has started the yearlong process to withdraw from the 144-year-old Universal Postal Union [UPU] because it had failed to eliminate international discounts that make it cheaper to ship small packages from China to the U.S. than for a U.S. business to ship the same product across the street. In FY 2018, USPS is expected to lose \$300M providing this service.



A U.S. postage stamp celebrating 100 years of the UPU in 1974.  
(Photo: National Postal Museum)

### WHAT IS THE UNIVERSAL POSTAL UNION?

“The Universal Postal Union (UPU), established by the Treaty of Bern of 1874, is a specialize agency of the United Nations (UN) that coordinates postal policies among member nations, in addition to the worldwide postal system.”

“Prior to the establishment of the UPU, each country had to prepare a separate postal treaty with other nations if it wished to carry international mail to or from them. In some cases, senders would have to calculate postage for each leg of a journey, and find mail forwarders in a third country if there was no direct delivery.”

“One of the most important results of the UPU Treaty was that it ceased to be necessary, as it often had been previously, to affix the stamps of any country through which one's letter or package would pass in transit. The UPU provides that stamps of member nations are accepted for the entire international route.” - Wikipedia

“[C]urrently 192 of the world's 196 nations are members—including political outliers like North Korea, but not a handful of Micronesian nations and isolated Andorra. The UPU sets standards for things like labeling and customs processes, and has played a huge if largely unheralded role in the globalization of commerce and culture over the last century and a half. It was eventually absorbed by the United Nations, and is now one of the oldest international organizations in existence.” – Pacific Standard

## IN-DEPTH - UNIVERSAL POSTAL UNION

### WHAT GUIDELINES WERE SET UP BY THE UPU?

“The UPU established that:

- There should be a uniform flat rate to mail a letter anywhere in the world
- Postal authorities should give equal treatment to foreign and domestic mail
- **Each country should retain all money it has collected for international postage.”**  
- Wikipedia

### PROBLEM WITH ORIGINAL GUIDELINE

Originally, it was thought “that each letter would generate a reply, resulting in an even swap of postal services.” It soon became apparent that countries did not send and receive the same amount of international mail. “At the **1906** Rome congress of the UPU, **Italian representatives noted that they had delivered 325,000 pieces of printed matter—magazines and newsletters—while sending out none to other countries.** This meant they were providing a great deal of postal service to fellow UPU members in exchange for ... nothing.”

“Italy pleaded for a system of compensation, but relief wouldn’t arrive until after World War II, when a wave of liberated colonies entered the UPU. Like other developing nations, they received far more international mail than they sent. Because the UPU’s standards are set through a one-country, one-vote democratic Congress, this influx of net importers led in **1969** to successful **implementation of a delivery compensation payment, dubbed terminal dues.**” – Pacific Standard – December 2015.

## IN-DEPTH - UNIVERSAL POSTAL UNION



Source: South China Morning Post

### WHAT ARE TERMINAL DUES?

**Terminal dues are charges post offices pay each other for delivery of inbound letter post.**

### HOW ARE TERMINAL DUES SET?

“The UPU has 192 members divided into groups based on the strength of their economies. This classification dictates the amount each country pays in terminal dues—that is, the fee to a foreign postal service for delivering inbound mail. Less-developed countries get significant discounts on shipments to more-developed ones. **The UPU classifies China a ‘Group 3’ country, along with countries like Cuba and Gabon—even though China has the world’s largest e-commerce market.**”

“Many developing countries can take advantage of this system, but China has done so like no other, partly because of the volume of its exports to the developed world and partly because its government aggressively subsidizes the trans-Pacific leg of the journey.” – WSJ

“That means **the United States is effectively subsidizing cheap overseas shipping**, specifically anything that’s 4.4 pounds or lighter. The administration has said that these rates for China **cost the U.S. \$300 million per year**, coming out to a 40 to 70 percent discount on shipping.” – VOX Oct 2018

## IN-DEPTH - UNIVERSAL POSTAL UNION

### GROWTH OF CHINA'S E-COMMERCE

“In 2017, the volume of **China’s e-commerce transactions** reached 8.2 trillion yuan (U.S. \$1.1 trillion), a year-on-year increase of 22.3 [percent], according to a report last month by the Beijing-based China Electronic Commerce Association. Topping the ranks of cross-border shipping destinations for e-commerce products from mainland China were Hong Kong, US, and Russia.” – South China Morning Post - October 2018



Photo: Xinhua, Provided by South China Morning Post

### U.S. HAS BECOME A NET IMPORTER OF INTERNATIONAL POST

“The United States has turned from a net exporter into a net importer [of international post] because of e-commerce. And, the United States is now being, and so is Europe, ... flooded with e-commerce delivered by post from Asia.” – AEI Oct 2018 Scholar Rick Geddes

## IN-DEPTH - UNIVERSAL POSTAL UNION

### WHAT HAS BEEN THE IMPACT OF CHINA'S E-COMMERCE?

“The rise of platforms like Alibaba and eBay has massively increased the volume of small packets being sent by international post directly from developing countries. Things like audio cables, sunglasses, and circuit boards, which had previously been bulk shipped to wholesalers in destination countries, have begun to flow instead through the postal system, directly to buyers—and subject to UPU terminal dues agreements.”

“Much of that flow is now from or through China, Hong Kong, and Singapore, which, in part **thanks to U.S. support in the UPU**, pay very low terminal dues on shipping small packets into industrialized countries.”

“A comprehensive study by the research group Copenhagen Economics has found that **the misalignment of terminal dues rates is leading online shoppers to order directly from countries with favorable UPU positions, rather than from suppliers closer to home—even if the price of the item itself is identical.**” - Pacific Standard – December 2015

“Amazon’s prices illustrate the gap: Standard shipping for an iPhone case from China to a New York address is \$4.99, while from a seller based in the U.S. is \$5.99. The difference may not seem like a lot, but added up over millions of low-cost consumer items, its effect has been a disadvantage for American retailers on e-commerce portals.”

“On AliExpress, internet giant Alibaba’s e-commerce portal for international buyers, shipping is free if a pair of \$10.29 yoga pants are transported via ePacket [4.4 pounds and less than \$400 value], the name of the subsidized service by the U.S. Postal Service. Other shipping options from companies like FedEx Corp., United Parcel Service Inc. or DHL Worldwide Express range from \$40 to \$60, raising the cost of the cheap pants so much that a buyer might as well get them from a store or seller in the U.S.” – Bloomberg New Oct 2018

## IN-DEPTH – UNIVERSAL POSTAL UNION

The case study below is based on excerpts from an article written by Jayme Smaldone, the Founder and CEO of Mighty Mug. The article was published by The Atlantic.



South China Morning Post

## CASE STUDY – IMPACT OF LOW TERMINAL DUES ON MIGHTY MUG

“I run a 12-person business in Rahway, New Jersey, called **Mighty Mug**. We make a patented travel mug that won’t fall over when knocked, which we ship to every state in the country.

Shipping has become almost invisible to the average American consumer; many assume it should be free when making a purchase. But it certainly isn’t invisible to businesses like mine. **We pay the U.S. Postal Service \$6.30 to deliver one mug**, and we provide free shipping for larger orders despite the cost because consumers expect it.

Almost anyone who makes a desirable product faces the threat of knockoffs eating into his or her market. We are no exception, but **we were still shocked to see counterfeit Mighty Mugs pop up like weeds two years ago through an array of e-commerce sites. Not only were those counterfeits cheaper; they also came with free shipping** — much of it through air mail, which is the most expensive form of transport—all the way from China.

It turns out that Chinese counterfeiters can offer free shipping because **they pay only about \$1.40 to send a mug 8,000 miles from China to an American home**, or five times less than what we pay. **Let the absurdity of that situation sink in for just a moment, and then consider that we can’t ship a mug across the street for \$1.40.** And if I were to ship one **Mighty Mug to China, the U.S. Postal Service would charge me \$22.00—or \$62.50 with tracking.** As the weight of the package increases, so does the problem: We pay up to \$17.61 to mail a four-pound package, but a shipper in China pays \$3.67.”

## IN-DEPTH – UNIVERSAL POSTAL UNION

## CASE STUDY – IMPACT OF LOW TERMINAL DUES ON MIGHTY MUG - cont'd

“Despite being the world’s second-largest economy, **China is still classified as a developing country, getting the same subsidized rates as countries such as Cuba and Botswana.** What this amounts to, in essence, is **a massive undue subsidy paid for by U.S. ratepayers** in the form of higher shipping costs.

These subsidies were not much of a problem in the past, when consumers generally bought household products from street-level retail establishments. Now they shop online, and mail has become the primary pipeline for products to travel from a business to a home. **There is no efficiency that we or any business can implement to overcome the shipping subsidy that the UPU framework creates.** This situation has helped fuel an avalanche of knockoffs online.

Because we have a patent on our product, we can request the removal of knockoff listings, but it’s a game of whack-a-mole. **As of today, we have removed more than 1,800 knockoffs, most shipping directly from China,** with still more to go. We even use a cutting-edge AI-driven system to detect and take down fraudulent listings—the smartest solution to the dumbest problem imaginable.

**Beyond losing direct-to-consumer sales, the [Universal Postal Union] UPU has also caused us to lose major retail and distribution opportunities.** When potential partners do a simple web search and find knockoff items selling at 50 percent to 75 percent of our price, they stay away. **Why stock a Mighty Mug in your store if customers are likely to just buy the cheaper version online?**

**When I complained to a postal employee about the rates, he suggested that I start shipping products directly from China to take advantage of the situation.**

[Renegotiating terminal dues is] good for consumers—who may not even realize they’re buying lower-quality knockoffs— good for postal ratepayers, good for the postal service, good for the country, and **good for the planet if it discourages wasteful international shipping.** It will also go a long way to keeping me and my 12 workers on the job.”

## IN-DEPTH - UNIVERSAL POSTAL UNION

USPS HISTORICALLY SUPPORTED  
LOW TERMINAL DUES

MIKE BLAKE / REUTERS PROVIDED BY THE ATLANTIC

“The history of the UPU since 1969 has largely been a war of position over who wins and who loses on terminal dues. Ongoing postal liberalization since the 1980s has added another twist—because **terminal dues rates** were only available to designated national postal services, **keeping them low became a way of excluding private couriers like FedEx and DHL from parts of the mail market**, including parts where they could have offered big cost savings over national posts. Broadly, this has led to **the USPS and its allies in low-cost and developing systems supporting unnaturally low terminal dues**, while more internationally competitive and high-cost systems like Germany and Norway advocate a system that recognizes real costs. The low-cost side has generally been successful—sometimes too much so.”

Recognizing that the USPS may have had a conflict of interest, **the U.S. Congress “took UPU representation away from a protesting USPS and entrusted it to the State Department.** [The State Department] sent Deputy Assistant Secretary Michael Southwick to the 1999 UPU Congress in Beijing, where he set off a minor firestorm.”

“Rather than toeing the USPS line in support of low, uniform, and anti-competitive terminal dues, Southwick brought a draft resolution calling for a deeper investigation of the possibility of liberalization, and successfully lobbied for private carriers to attend as observers for the first time. **In a characteristic display of UPU insularity, his resolution was tabled for indefinite further study**, and private carriers’ representatives were ultimately only allowed into insubstantial plenary sessions.”

“These were postal service administrators living in a comfortable world that they didn’t want to change,” says Southwick. - Pacific Standard – December 2015

## IN-DEPTH - UNIVERSAL POSTAL UNION

### U.S. PUSH TO CHANGE UPU TERMINATION DUES

**“The US has a legitimate case against the UPU.** It’s not all that transparent about its pricing, but it is clear that China is getting a big discount. **And the US has a bunch of allies in places like Europe who are also drowning in cheap foreign imports that could add to the pressure to UPU reform.”** - VOX – October 2018

“The administration threatened to withdraw in August [2018] to gin up leverage before the extraordinary September UPU Congress in Ethiopia. As [Eric] Katz reports, that didn’t work out too well for the Trump administration:

**Efforts to push for self-determination of rates were not well received at the Ethiopia meeting,** a senior White House official said, and the administration will now begin a regulatory process to accomplish that on its own outside of the UPU.

‘We were rebuffed there,’ the senior official said. ‘Everyone was aware that if we were rebuffed we would move forward. We didn’t get fairness so this administration is taking unilateral action.’

Officials said they expected the U.S. government to start setting its own rates for small packages within the next six months to one year.

**‘We would prefer to stay within the UPU,’ a senior White House official said, noting, ‘It does provide some benefits.’** The official added **the UPU assists with the war on illicit drug trafficking,** and the administration is working to maintain its access to advance electronic data whether or not it withdraws from the organization.” – Washington Post

## IN-DEPTH - UNIVERSAL POSTAL UNION

### POTENTIAL DOWNSIDE OF EXITING THE INTERNATIONAL POSTAL TREATY

**“No international letters, no international packages:** A top official with a 192-country postal union says that's what Americans can expect if the Trump administration goes through with plans to pull out of an international postal treaty over concerns about China.

**Pascal Clivaz, deputy director-general of the Switzerland-based Universal Postal Union,** says the agency reached out quickly to U.S. officials after receiving a letter from U.S. Secretary of State Mike Pompeo this week announcing Washington's plan to pull out of the union in a year if the treaty isn't renegotiated.

‘It will have dramatic consequences for American consumers. **It will cost them enormously. They will be all alone against all the countries of the world,**’ Clivaz told The Associated Press on Friday. ‘They won't even be able to send (a package) to a neighboring country. It's an accord that links everybody.’

**Clivaz acknowledged the U.S. concerns about China were at the root of the problem,** but said agreements within the UPU since 2016 have moved toward ‘improving the issue with China.’

A U.S. pullout from the 144-year-old organization, a specialized U.N. agency, would strip the U.S. from access to special codes needed to send and receive mail internationally, Clivaz said. Any U.S. companies that need them — like FedEx or UPS — would lose access too, he said.

**‘This agreement regulates all the issues: technical problems, customs issues, security issues. Without the codes, without this green light, you can't move a single letter or package,’** he said.” – Japan Today – October 2018

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- Cashless Society 4<sup>th</sup> Qtr 2017
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- Labor Participation Rate 4<sup>th</sup> Qtr 2015
- Money Market Fund Reform – New Rules 3<sup>rd</sup> Qtr 2016
- Negative Interest Rate Policy (NIRP) 2<sup>nd</sup> Qtr 2016
- New Silk Road 2<sup>nd</sup> Qtr 2017
- Quantitative Easing 1<sup>st</sup> Qtr 2016
- Texas Imports and Exports 2<sup>nd</sup> Qtr 2018
- Universal Postal Union 3<sup>rd</sup> Qtr 2018

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