

12-Month Average Change in CPI-U

Prepared by Postal Regulatory Commission

Last Update: 9/14/2012

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|-------------|---------|--------|--------|--------|--------|--------|--------|-----------------------------|---------|---------|-----------------------------|---------------------------|
| 2005 | 2.8% | 2.9% | 3.0% | 3.1% | 3.1% | 3.0% | 3.0% | 3.1% | 3.3% | 3.4% | 3.4% | 3.4% |
| 2006 | 3.5% | 3.5% | 3.5% | 3.5% | 3.7% | 3.8% | 3.9% | 3.9% | 3.7% | 3.4% | 3.3% | 3.2% |
| 2007 | 3.1% | 3.0% | 2.9% | 2.8% | 2.7% | 2.6% | 2.4% | 2.3% | 2.3% | 2.5% | 2.7% | 2.9% ^{1/} |
| 2008 | 3.0% | 3.2% | 3.3% | 3.4% | 3.5% | 3.7% | 4.0% | 4.3% | 4.4% | 4.5% | 4.2% | 3.8% ^{2/} |
| 2009 | 3.5% | 3.2% | 2.8% | 2.4% | 1.9% | 1.4% | 0.8% | 0.2% | -0.324% | -0.634% | -0.570% | -0.356% |
| 2010 | -0.143% | 0.013% | 0.236% | 0.482% | 0.757% | 0.968% | 1.252% | 1.477% | 1.685% | 1.799% | 1.741% ^{3/} | 1.640% |
| 2011 | 1.559% | 1.557% | 1.589% | 1.668% | 1.799% | 2.008% | 2.208% | 2.426% ^{4/} | 2.653% | 2.849% | 3.036% | 3.157% |
| 2012 | 3.263% | 3.326% | 3.322% | 3.248% | 3.090% | 2.930% | 2.743% | 2.570% | | | | |

1/ Price cap for Docket No. R2008-1

2/ Price cap for Docket No. R2009-2

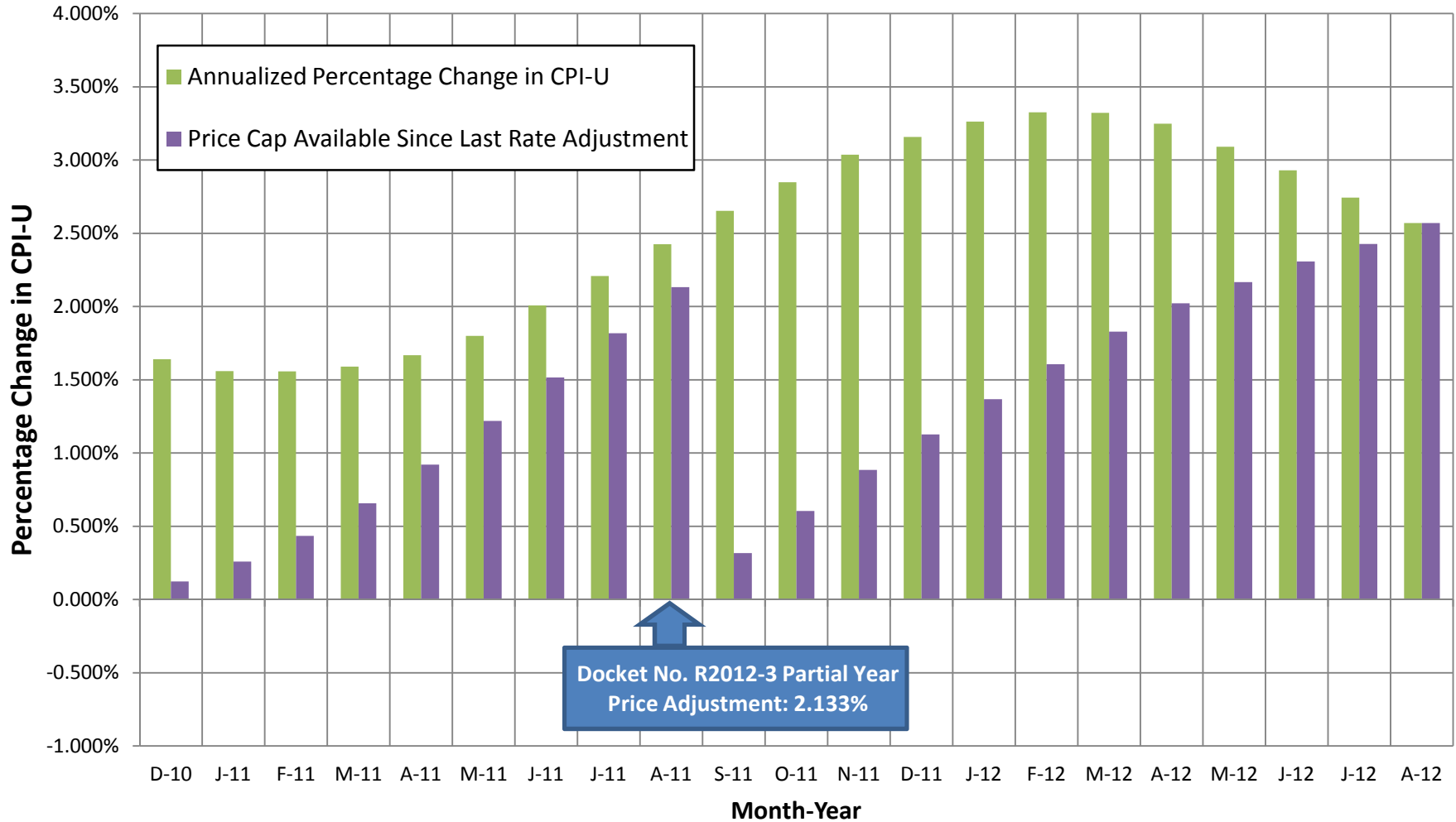
3/ Price cap for Docket No. R2011-2

4/ Partial Year Price cap for Docket No. R2012-3 equals 2.133 percent

Explanation of How "Change in CPI-U" is Calculated:

The Commission determines the price cap for any 12-month period by calculating the ratio of two 12-month CPI-U averages that are 12 months apart, subtracting one, and expressing the value as a percentage. For a more detailed explanation of the calculation of the price cap please see 39 CFR §3010.21, or the Commission's Final Rules at <<http://www.prc.gov/prc-docs/home/PAEA/FinalRulesWeb.pdf>>.

Annualized Percentage Change in CPI-U and Available Price Cap December 2010-August 2012



CPI-U annualized using a 12-month moving average. For a more detailed explanation of the calculation of the price cap, including partial year cap calculations, please see 39 CFR §3010.21-22, or the Commission's Final Rules at <http://www.prc.gov/prc-docs/home/PAEA/FinalRulesWeb.pdf>.

Explanation of Bar Graph:

Generally, the Postal Service changes market dominant prices annually. To calculate the applicable annual percentage change in rates, the Commission first creates an annualized index that is the average of twelve monthly CPI-U figures. For example, to calculate the annualized index for November 2010, the Commission sums the CPI-U figures for each month beginning with December 2009 and ending with November 2010, and divides that sum by 12 to produce an annualized index for that 12-month period. To calculate the annualized percentage change, the Commission takes the ratio of two annualized indices twelve months apart and subtracts one from the quotient. The remaining amount is the annualized percentage change. The **green bars** on the graphs depict the trend of the ratio of two indices, i.e., the annualized percentage change, exactly twelve months apart throughout 2010 and 2011.

On occasion, the Postal Service may decide to change market dominant prices less than annually. In this circumstance the Commission takes the ratio of two annualized indices less than twelve months apart using the annualized index at the time of the last price adjustment as a base. For example, in Docket No R2012-3 the Postal Service filed a market dominant rate change using the August 2011 index. Because the price adjustment occurs 9 months after the previous adjustment, the Commission used the ratio of the annualized August 2011 index to the annualized November 2010 index. Simply, it is a ratio of two indices nine months apart. The closer the Postal Service's partial year price change is to the most recent annual price change the smaller the allowable increase is compared with the annualized percentage change. For this reason, the allowable percentage price change is very small in the first month after an annual price change, but increases month by month, except under deflation. The **purple bars** on the graphs depict the "build up" of the price cap for each class of mail, i.e., the allowable percentage price change, throughout the year by class. In December 2010, the two bars are far apart, but continue to grow closer throughout the ensuing months.

The Postal Service may also decide to change market dominant prices more than twelve months apart. When this happens, the two bars will continue to be of equal height until the Postal Service changes market dominant rates.¹

¹ When rate adjustments are greater than twelve months apart interim unused rate adjustment authority is generated. This authority is excluded from the price cap calculation because the Postal Service is not required to use all of its unused rate adjustment authority in traditional rate adjustments.