Industry Update

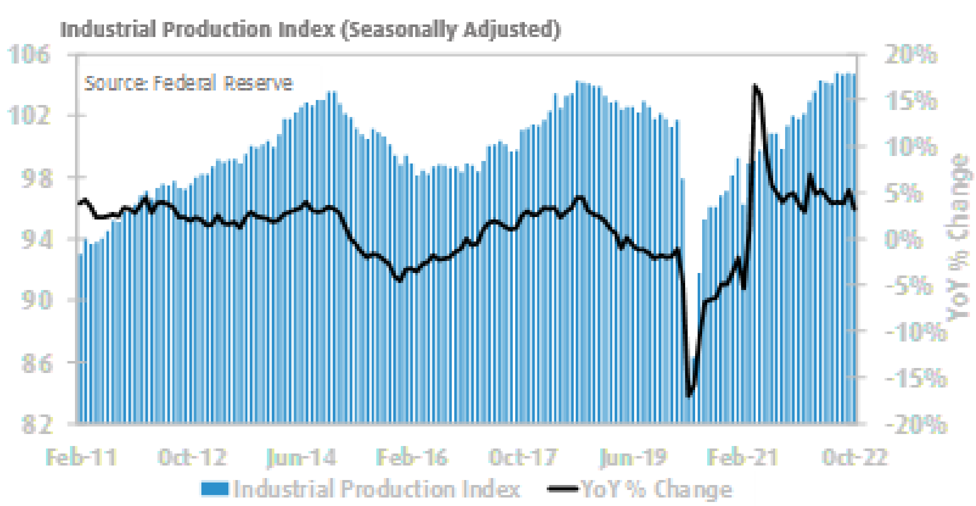
Refuse and Recycling

Key Developments

- According to the **Census Bureau**, household formation, a leading indicator for solid waste volumes, decelerated from 416,000 during the 2nd quarter to 317,000 (+0.3%) units during the 3rd quarter but grew by 1.25 million units (+1.0%) from the year-earlier quarter.
- According to the **Bureau of Labor Statistics**, the Waste Management and Remediation Services industry, at the end of September, had regained 33,100 production jobs (+9.0%) since the low point of the pandemic while also reaching record high employment. Although industry labor costs continue to experience significant upward pressure, the year-over-year increase in average hourly wages during the 3rd quarter continued to decelerate to +5.6% from +5.9% during the 2nd quarter and +9.0% during the 1st quarter.
- According to the BLS, waste industry illness and injury rates experienced a historic drop in 2021. Solid waste collection rates fell from 5.2 per 100 full-time employees in 2020 to 4.0 in 2021. Despite the improvement, the industry is still the sixth deadliest occupation in the United States.
- Be sure to check out the latest perspectives from BMO economists on the macro outlook (page 4).

Industry Fundamentals

The fundamental characteristics of the waste management industry continue to exhibit impressive pricing leverage and steady free cash flow despite a decelerating macro environment. The stickiness of recent CPI-linked price increases, coupled with potentially past peak internal inflation pressures, should more than offset the margin drag of declining recycling commodity prices and provide a tailwind for operating leverage into the new year. Still, rising interest rates and shifting consumer spending away from goods will continue to pressure large volume-generating sectors such as construction, retail, and manufacturing. Against that volume backdrop, the industry maintains a proven cash flow preservation playbook, including reduced overtime and discretionary expenses, equipment optimization, and postponing significant capital outlays.



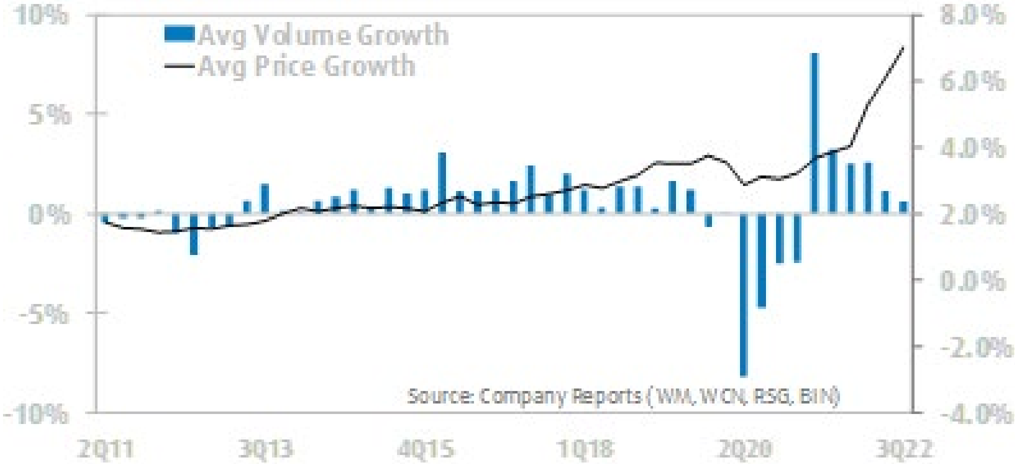
U.S. industrial production fell 0.1% in October, which leaves it 3.3% above the year-ago level. Moreover, September's previous 0.4% gain was revised to just 0.1%. While industrial production remains above trend, the revisions indicate that growth has slowed significantly since the Fed began its hiking cycle, with the overall index up a modest 0.4% since April.

Manufacturing output, approximately 75% of industrial production, increased by 0.1%, with motor vehicles and parts leading the way (+2.0%). Nonetheless, **capacity utilization** dropped 0.2 percentage points to 79.9%, which coincides with the weaker-than-expected PPI reading for October.

Explore Financing Solutions at www.bmotf.com

Business Indicators

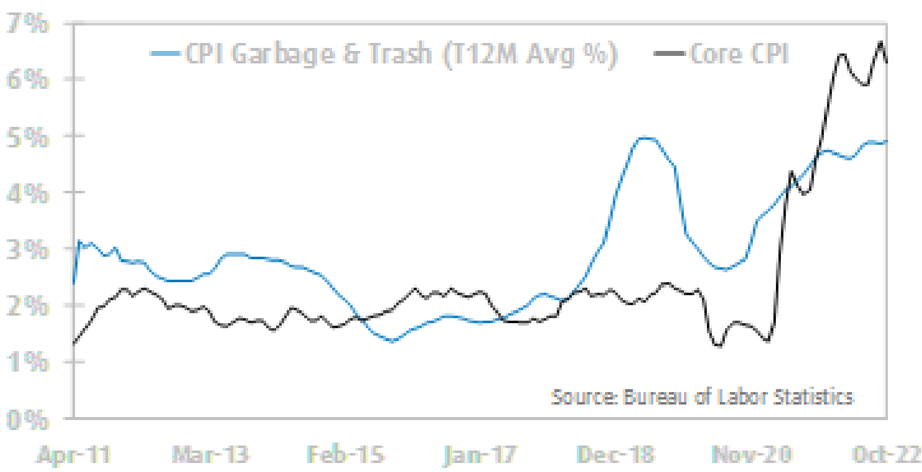
Public Company Average Reported Volume and Pricing Growth Y/Y % Change



A sample group of public refuse haulers realized record average year-over-year **pricing growth** of 7.0% during the 3rd quarter, up 90 basis points from the 2nd quarter and well above the 5-year and 10-year averages of 3.5% and 2.8%, respectively. Pricing continues to be supported by steady growth in the commercial sector and advantageous negotiating leverage within the highly inflationary backdrop.

Growth in **solid waste volumes** remains positive but has decelerated significantly. Yearly comparisons have stiffened while inflation and higher interest rates have taken their toll on the hospitality industry and C&D activity. And although supply chain constraints have eased, output in many goods-producing sectors remains below potential.

Core CPI (All Items Excl. Food & Energy) vs. CPI Garbage & Trash Collection Y/Y % Change

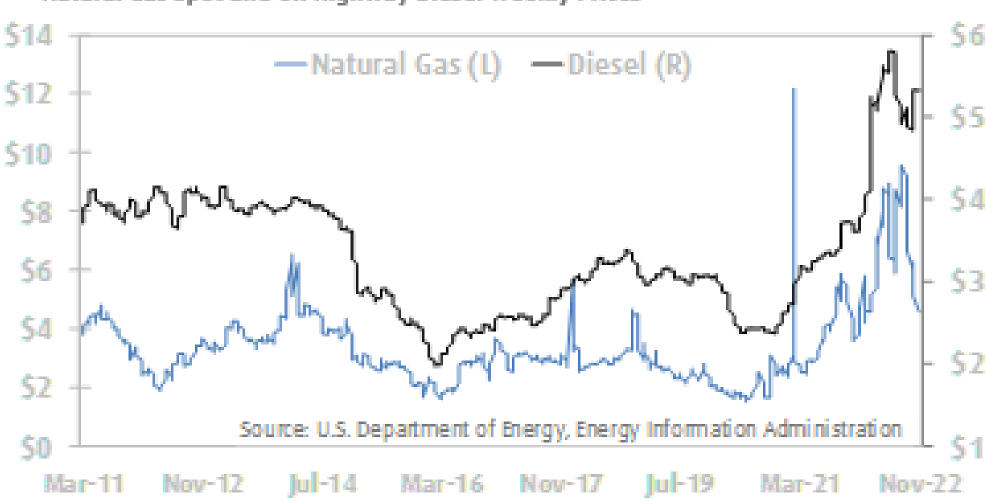


The October CPI report marks only the second time in the past year that the core measure has risen a relatively mild 0.3% in a month, so it's unclear whether this is the start of a slower trend.

Core prices rose 0.27% after holding in the 0.5%-to-0.6% range for most of the past year, cutting the yearly rate to 6.3% from a 40-year peak of 6.6%.

After dipping to a recent low of 4.6% during August, the **CPI index explicitly related to garbage and trash collection**, which is used frequently as a benchmark for contract service pricing, reached a multi-year high during October of nearly 6%.

Natural Gas Spot and On Highway Diesel Weekly Prices



Since peaking at an all-time high in June, Retail Diesel fuel prices have been on a high-altitude roller-coaster. As of mid-November, the average weekly Diesel price of $5.31 was down 50 cents (-9%) from the peak but still up $1.25 (+31%) since the invasion of Ukraine and $1.58 (+42%) over the past year.

BMO estimates that the risks for crude and Diesel prices lean to the upside, given low inventories and the possibility that OPEC+ could cut output further in response to a weakening global economy.

Despite supply disruptions and the onset of cooler weather in the Northern Hemisphere, the EU's successful efforts to build winter inventory have caused the spot price for **natural gas** to collapse from near multi-decade highs in August.

BMO

Transportation Finance

You can count on us.

Fueled by more than 40 years of experience, BMO Transportation Finance brings our waste management customers a locally based sales force, exceptional service and highly tailored financing solutions. Whatever your goals, we work to understand the way you work — and make it our business to know yours.

Visit bmotf.com to learn more.

"Voice of the BMO Economics Team"

With the post-pandemic economy challenged by volatile commodity and energy prices, moderating but still unacceptably high inflation, rising interest rates, and cracks in the housing market, we thought it would be helpful to check in on the BMO Economics Team's latest near-term outlook for the North American economy.

For more: https://economics.bmo.com/en/

Taking The Economy's Pulse – Sal Guatieri, BMO Senior Economist and Director Economics

Given the lack of economic releases on both sides of the border this week, it's worth taking a look at some of the less popular, though timelier, indicators to check on the economy's pulse heading into year-end.

Let's start with **travel-related purchases** to see if there is any sign of waning demand that would also relieve price pressures in this area. While air travel in both the U.S. and Canada is still flying high, it lost some altitude in early November. Spending on accommodation also lurched down in the U.S., possibly due to last month's jump in hotel rates. Apparently, revenge travel is running into the stone-cold reality of tighter budgets.

Consumers are pulling back though putting up a fight. Retail, recreational and transit mobility held firm in the U.S., at least through mid-October (when Google stopped updating its data), though it dipped in Canada. After a strong summer season, restaurant visits remain above pre-pandemic levels in Canada and close to normal stateside, but they slipped in early November in both countries. U.S. cinema outings never fully recovered from the pandemic and haven't made much headway of late. U.S. payment card spending remains robust, even among lower-income households. This, combined with continued sturdy consumer credit growth, could pose an obstacle for an inflation-fighting Fed.

Indeed's **job postings** are trending lower in the U.S., suggesting some reversal in the BLS's reported rebound in vacancies in September. But postings hooked up in Canada, casting an even better glow on the strong October jobs report. The U.S. Census Household Pulse data suggest COVID's grip on labor supply continues to loosen, though more workers are reporting absences related to other illnesses (i.e., a bad flu season).

U.S. existing **home sales** trended down in October, according to Redfin's weekly numbers, as the market continues to struggle with two-decade-high mortgage rates and dismal affordability. Median prices also fell further, with homes taking longer to sell, but new listings and inventory remain relatively in check, limiting the decline.

For the **overall economy**, the New York Fed's Weekly Economic Index continues to grind lower but held above 2% y/y in early November, indicating some resilience. The OECD's Weekly Tracker also suggests some durability in Canada, with growth hovering just under 3% y/y through late October.

Bottom Line: The most aggressive course of monetary tightening in decades is gradually working to cool demand, but there are pockets of resistance that could hinder the inflation fight.

"Voice of the BMO Economics Team"

US Housing Starts Slide – Priscilla Thiagamoorthy, BMO Economist

U.S. housing starts fell 4.2% to 1.425 million (annualized) in October. That comes after a revised 1.3% drop a month earlier, but better than the 8.1% decline initially reported. Construction of **single-family** homes plunged 6.1% to the lowest level since May 2020, while volatile **multi-units** declined 1.2%. Starts fell in most regions though the densely populated South managed to climb 6.7%.

Meantime, **building permits** fell 2.4% to 1.526 million (annualized), amid dwindling confidence in the housing market. A separate report showed **home builder sentiment** now at the lowest level in more than 10 years. Looking ahead, weaker construction is likely amid prices that are still elevated, a cloudy economic outlook and high mortgage rates.

Bottom Line: U.S. housing starts fell more than expected in October though the prior month was revised up. Home builders continue to face a raft of headwinds including still-hot inflation, worker shortages, slowing economic growth and fading housing demand. Looking ahead, the extremely interest-sensitive housing market will weaken further.

US Retail Sales Sail Ahead – Priscilla Thiagamoorthy, BMO Economist

U.S. retail sales climbed 1.3% in October after stalling a month earlier, as consumer demand for goods stayed healthy despite high inflation. The better-than-expected gain marks the fastest pace in eight months.

Purchases at **motor vehicle and parts dealers** rose 1.3% amid easing supply chain snags and **gas station receipts** jumped for the first time in four months, up 4.1% on higher prices. Excluding autos and gas, sales were up 0.9%, with broad-based gains suggesting consumers remain resilient despite risks of a looming recession. Sales for **building materials** jumped 1.1% in the face of higher borrowing costs, while **furniture** purchases also gained 1.1%. **Restaurant** receipts rose, though largely due to higher services costs.

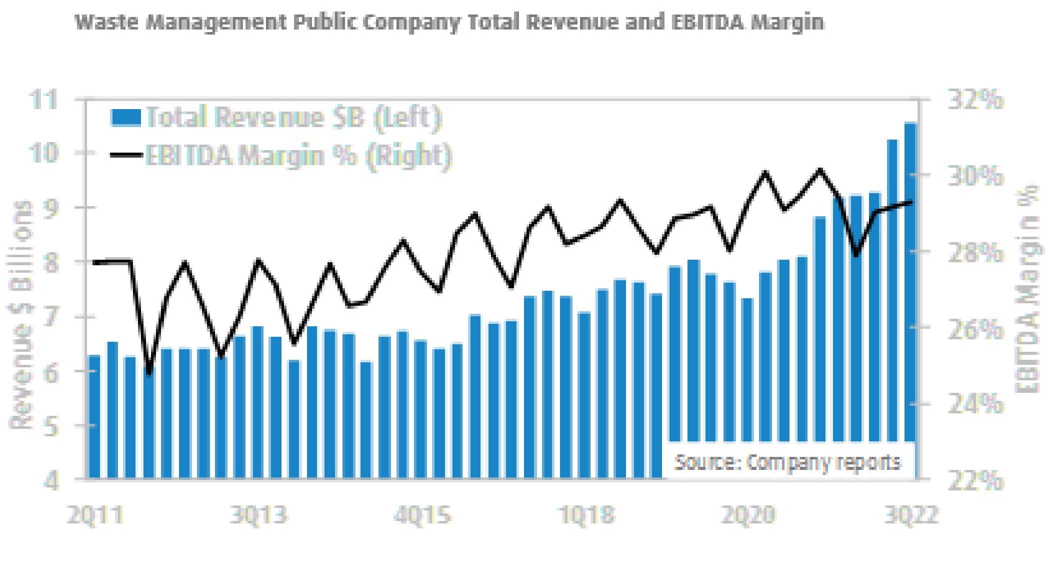
Importantly, the **control measure** (ex-food services, autos, gas, and building materials) climbed by a solid 0.7% after an upwardly revised 0.6% gain. This figure feeds directly into GDP estimates and flags a healthy start for Q4 household consumption.

Compared to a year ago, sales climbed 8.3% as a robust job market continues to support consumers, though much of the increase reflected higher prices (CPI +7.7%).

Bottom Line: Consumers—the biggest engine of the U.S. economy—are still holding up. Strong job and wage growth are shoring up households, despite still-high inflation, tightening financial conditions, and a weaker economy.

BMO Transportation Finance

Business Indicators



Exceptional core pricing strength combined with contributions from M&A and moderate volume growth resulted in **total revenue** for a sample group of public waste management companies reaching a 9th consecutive quarterly high. Revenue during the 3rd quarter increased nearly 3% from the previous record 2nd quarter and an eye-catching +14.8% compared to the year-ago 3rd quarter.

In a "normal" environment, **EBITDA margin** typically follows revenue trends with the benefit of operating leverage. But in the current climate, the industry's strong pricing and volume leverage are somewhat diluted by rapidly rising internal inflation (labor, insurance, fuel, etc.) and deflationary recycling commodity prices. As a result, despite significantly higher revenue, EBITDA margin of 29.3% during the 3rd quarter fell ten basis points from the year-ago quarter while increasing only ten basis points from the 2nd quarter.

Refuse Financing Inquiries

Jim Roberts
Jim.roberts@bmo.com
972-819-2616

Industry Research Contact

Michael Zimm, CFA
Michael.zimm@bmo.com