According to the “advance” estimate from the U.S. Commerce Department, annualized GDP growth during the 3rd quarter of 2017 held relatively steady (despite the hurricanes) at 3.0%; a slight decrease from 3.1% during the 2nd quarter but better than 2.8% in the year earlier 3rd quarter.

According to the Bureau of Labor Statistics, total employment in the Waste Management and Remediation Services industry during October increased 2.3% y/y to reach a new all-time high of nearly 418k. Similarly, average hourly wages increased 2.2% to a new all-time high of $25.99.

According to the Census Bureau, household formation, which is a leading indicator for the housing market and likewise solid waste volumes, increased by only 407,000 units (+0.3% year-over-year) during the 3rd quarter of 2017; a deceleration from the 620,000 (+0.5% year-over-year) new households established during the 2nd quarter and 1.2 million in the year earlier 3rd quarter.

Industry Update: Refuse and Recycling

Despite two hurricanes during the 3rd quarter, overall refuse industry fundamentals continued to be supported by positive trends in the direction of overall GDP growth, durables manufacturing and residential construction. That being said, rising fuel costs and downward pressure on recycling commodity prices due to China’s effort to curb imports of solid waste are likely to be growing headwinds during the current 4th quarter. Nonetheless, the post-hurricane cleanup and construction rebuilding effort in the Gulf Region and Southeast, coupled with a forecast by BMO Economists for steady improvement in GDP growth from an average of 2.2% during the 1st half to nearly 3% during the 2nd half, should provide the industry with a net positive backdrop for the remainder of 2017.

Industrial Production Index (Seasonally Adjusted)

According to the Federal Reserve, Industrial Production during the 3rd quarter declined at an annualized rate of 1.5% but would have risen by at least 0.5% were it not for the effects of Hurricanes Harvey and Irma.

Despite a slight sequential uptick in manufacturing activity during September, capacity utilization for the manufacturing sector during the month held steady at 75.1 percent. However, despite a modestly rising trend over the past year, the current level of utilization remains 3.3 percentage points below the long-run (1972-2016) average of 78.4 percent.
A sample group of large public refuse haulers realized average year-over-year pricing growth of 2.6% during the 3rd quarter, which was a new multi-year high and well above the 5-year average of 2.0%. Conversely, volume growth retreated to a 2½ year low primarily due to Hurricanes Harvey and Irma. While volume growth has been generally beneficial to the pricing environment, large refuse haulers have also improved their pricing metrics by maintaining discipline to either shed or forego various contract opportunities that do not meet targeted returns on invested capital.

The core consumer price index (CPI), which excludes volatile energy and food prices, has trended lower through the first nine months of 2017. With a recording of 1.69% during September, the index sits near a 3-year low and remains well below the important Fed target of 2.0%.

The more volatile CPI related to Garbage and Trash Collection, which is increasingly used as a benchmark for contract service pricing, has also moderated since peaking in June and now sits just below its 12-month moving average of 2.0%.

The retail price of Diesel, which had been locked in a tight range of $2.50-2.60 through the first eight months of the year, has broken out to the upside. The weekly average price of $2.88 per gallon as of early-November was $0.30 higher than at the beginning of the year and $0.40 (+17%) higher than a year earlier. The price of crude oil and its derivatives are expected to remain in a tight range for the remainder of 2017 and throughout 2018. As of November, the EIA forecasted diesel prices to finish 2017 at $2.87 per gallon and thereafter remain in a range of $2.80-$2.90 during 2018. The EIA expects the usually more volatile spot price for Henry Hub natural gas, which has averaged $3.00/million BTU in 2017, to be less volatile while increasing modestly to a full year average of $3.10 (+3.3%) during 2018.
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Business Indicators

Waste Management Public Company Total Revenue and EBITDA Margin

Total revenue for a composite group of large public waste management companies experienced both a sequential and year-over-year uptick while also achieving a quarterly record.

Despite the negative affects of two hurricanes on volume and efficiencies, year-over-year revenue growth of 6% was driven primarily by strength in core solid waste pricing as well as resilient pricing in recycled commodities. As a result, EBITDA growth of 7% resulted in a new multi-year high margin of 29.2% that was 20 basis points higher than the year earlier 3rd quarter.

Composite includes: WM, WCN, RSG, BIN

2018 Outlook for Waste Management Public Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenue Y/Y %</th>
<th>Adj. EPS Y/Y %</th>
<th>EBITDA Y/Y %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste Management</td>
<td>+3.5%</td>
<td>+8.8%</td>
<td>+4.5%</td>
</tr>
<tr>
<td>Republic Services</td>
<td>+4.6%</td>
<td>+7.9%</td>
<td>+6.0%</td>
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<tr>
<td>Waste Connections*</td>
<td>+5.4%</td>
<td>+10.3%</td>
<td>+7.7%</td>
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</table>

Source: Capital IQ

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