
April 2010

Business conditions in the recycling industry



WRAP's latest quarterly survey of business and financial conditions in the recycling industry (undertaken by Oxford Economics) finds that slightly more firms experienced a rise in turnover than a fall during 2010Q1. This is positive news given that in four of the previous five quarters more firms reported falls in turnover than reported increases. There is also evidence that firms' investment plans were less constrained by external financing conditions than in previous quarters.

WRAP helps individuals, businesses and local authorities to reduce waste and recycle more, making better use of resources and helping to tackle climate change.

Executive Summary

Each quarter WRAP surveys businesses in the recycling industry about business and financial conditions in the sector, including firms' ability to access external finance and the impact of this on their activities.

Key findings from the 2010Q1 survey include:

- The balance of firms reporting a rise in turnover rose to +2%, up from -19% in 2009Q4 and from -37% a year ago. This small positive balance suggests industry turnover and output levels may have stabilised, after falling sharply in four out of the five previous quarters.
- Despite the stability in turnover, capacity utilisation rates appeared to fall slightly.
- In 2010Q1, 40% of the recycling firms surveyed had sought external finance. This was the second quarterly rise since the nadir of 32% in 2009Q3.
- As in previous surveys, the dominant reason for seeking external finance was to undertake investment (cited by 83% of firms). The number of firms wanting finance to purchase or lease property increased, perhaps reflecting recent increases in commercial property prices.
- The interest rates firms paid remained virtually unchanged during 2010Q1. However, the balance of respondents reported that non-price terms on their loans continued to tighten: +20% reported higher fees and commissions and +9% reported tighter collateral requirements.
- The proportion of firms that believed that changes in the availability or conditions attached to external finance had negatively affected their business fell 6 points to 40%. This is the same percentage as in 2008Q1, the quarter prior to the recession.

Looking forward:

- The balance of firms expecting turnover to increase next quarter rose by 40 points to +55%, its highest level since the survey began in 2008Q1.
- Only 28% of firms expect to access external finance during the next quarter. This is the lowest percentage of the nine surveys to date.

- 38% of the firms surveyed expect changes in external financing conditions to negatively affect their business next quarter. This is a fall of 6 points from 2009Q4 and is the same level as that recorded in 2008Q1, prior to the start of the recession.

Introduction

Each quarter WRAP surveys businesses in the recycling industry about current business and financial conditions, including their ability to access external finance and the impact of this on their activities. The 2010Q1 survey was sent to 355 recycling firms and was available for online or hard-copy completion. In total, 60 firms (17%) responded.

The respondents are only a sample of the overall population of businesses in the UK recycling industry and it is not possible to guarantee that the results are identical to those that would have been achieved had the entire population been interviewed. Nevertheless, the sample size is large enough for the results to give an indication of wider sentiment.

WRAP's ninth quarterly survey suggests that turnover and output levels in the recycling industry may have stabilised in 2010Q1. A small net balance (+2%) of firms reported a rise in turnover, after four out of the five previous surveys had indicated a decline.

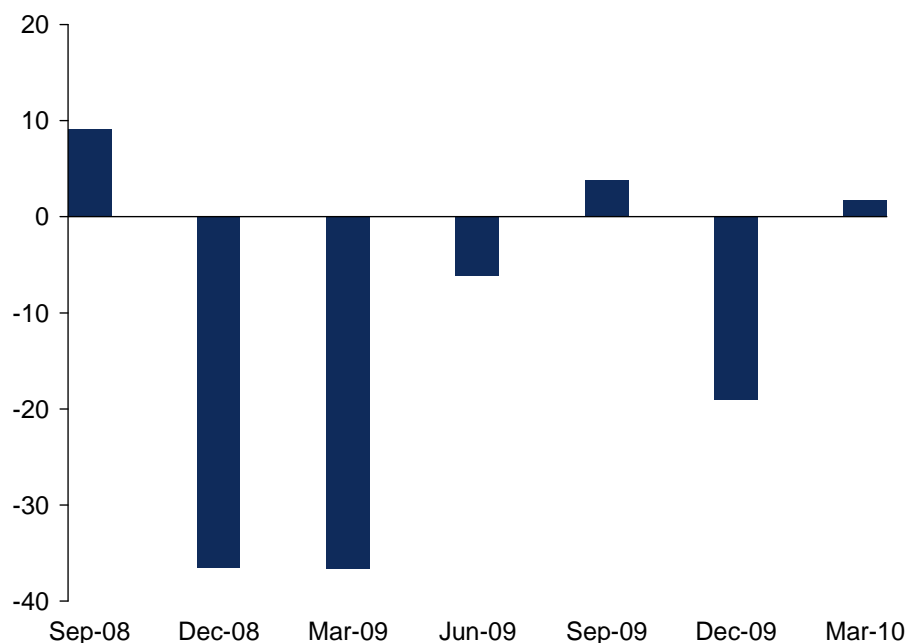
The survey results also suggest a further improvement in financial conditions. 40% of the firms surveyed thought inability to access or changes in the terms and conditions of external finance had negatively impacted their business in 2010Q1, 6 points less than in 2009Q4 and the lowest proportion since 2008Q1.

Recycling firms' activity levels in 2010Q1

In 2010Q1, a net balance of +2% firms reported a rise in turnover, compared with -19% in 2009Q4 (Chart 1). This small rise suggests turnover may have stabilised, after falling sharply in four out of the five previous quarters. The change in the net balance reflecting firms shifting away from reporting that their turnover had 'fallen a little' towards 'no change' or 'risen a little'. The proportion of recycling firms which reported that their turnover had fallen 'a lot' remained virtually unchanged from the previous survey at 15%, which suggests that a core of firms continues to experience difficult business conditions.

However, given the small scale of the rise relative to the falls in 2008Q4 and 2009Q1, it is likely that turnover remains below its pre-recession peak. This contention is supported by ONS data on the gross output of the recycling industry,¹ which in the first two months of 2010 (the latest data available) stood 5% below its level in the quarter prior to the start of the recession (2008Q1).

Chart 1: Net balance of firms reporting an increase in turnover
% balance



Source : WRAP

¹ This Office of National Statistics series forms part of the Index of Production. Gross output is turnover plus the change in work in progress and finished goods inventories.

43% of firms said that prices had contributed to a change in turnover, compared with 38% in 2009Q4. Set against this, only 9% cited changes in input costs as a factor despite recent increases in commodity and fuel prices, which may suggest that firms have relatively little pricing power.

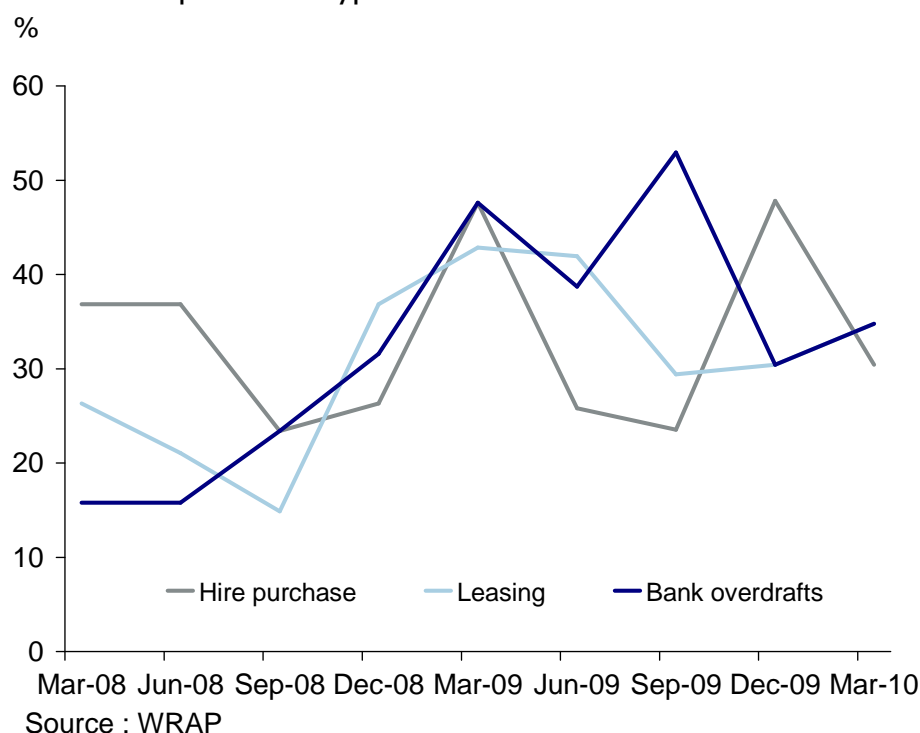
Despite the greater stability in turnover, capacity utilisation rates seem to have fallen since 2009Q4. 10% of firms reported that they were operating at less than 50% capacity utilisation (compared with 3% in 2009Q4), whilst 43% were operating at less than 70% capacity (32% in 2009Q4). This may temporarily reflect firms using labour more intensively than equipment.

Recycling firms' use of external finance in 2010Q1

In 2010Q1, 40% of the recycling firms surveyed had sought external finance. This was up 3 points from 2009Q4, the second quarterly rise since the low point of 32% in 2009Q3. It echoes the increase in demand for lending from firms of all sizes in 2010Q1 reported in the Bank of England's Credit Conditions Survey.

Some firms continue to rely on short-term external finance for working capital and cash flow management. This is consistent with the Department of Business, Innovation and Skills' SME Business Barometer survey, where these two reasons are the most frequently cited by SMEs for seeking external finance. Use of bank overdrafts rose slightly (by 5 points to 35%), but remains well below the peak usage of 53% in 2009Q3 (Chart2).

Chart 2: Respondent's types of external finance accessed.

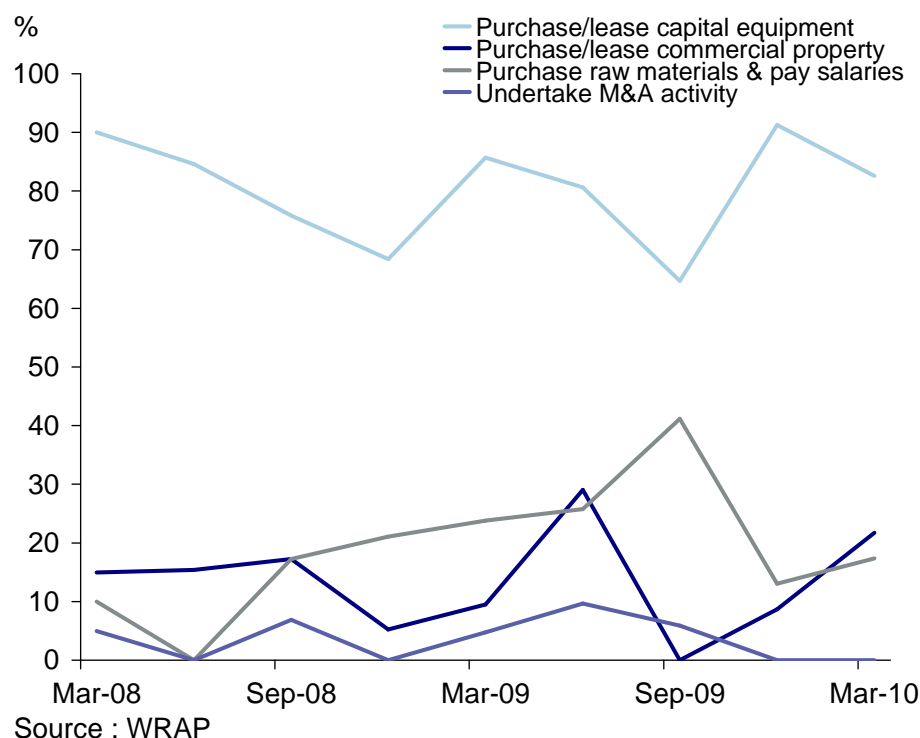


Similarly, the proportion of firms seeking external finance to pay for raw materials or pay wages rose (by 4 points to 17%) but remains below the peak for this response of 41% in 2009Q3 (Chart 3).

The proportion of firms using external finance to purchase or lease capital equipment fell by 8 points to 83%.² There was a sharp increase (from 9% to 22%) in the use of external finance to purchase or lease commercial property. This may reflect firms needing to access external finance or more external finance to be able to purchase property given the growth in commercial property prices in the previous two quarters. For the second consecutive survey, no firms cited M&A activity as a motive for accessing external finance. This is in contrast to the Bank of England's Credit Condition Survey 2010Q1, where this was perceived by lenders as the most popular reason by some margin for the increase in demand for loans in the wider economy.

² The latest ONS data shows real business investment by the recycling sector (which mostly reflects metal recycling) rose by 15% in 2009Q4 to stand 29% below its level of a year earlier.

Chart 3: Respondent's selected motivations for accessing external finance.



There has been a marked change in the popularity of floating versus fixed interest rate loans. In 2010Q1, 57% of firms using loan finance applied for floating rate loans, up 24 points on the previous survey and the highest level since the survey began. It is not clear whether this reflects a change in business expectations about the interest rate outlook or a change in pricing (eg lower interest rates on floating rate loans than on fixed rate loans).

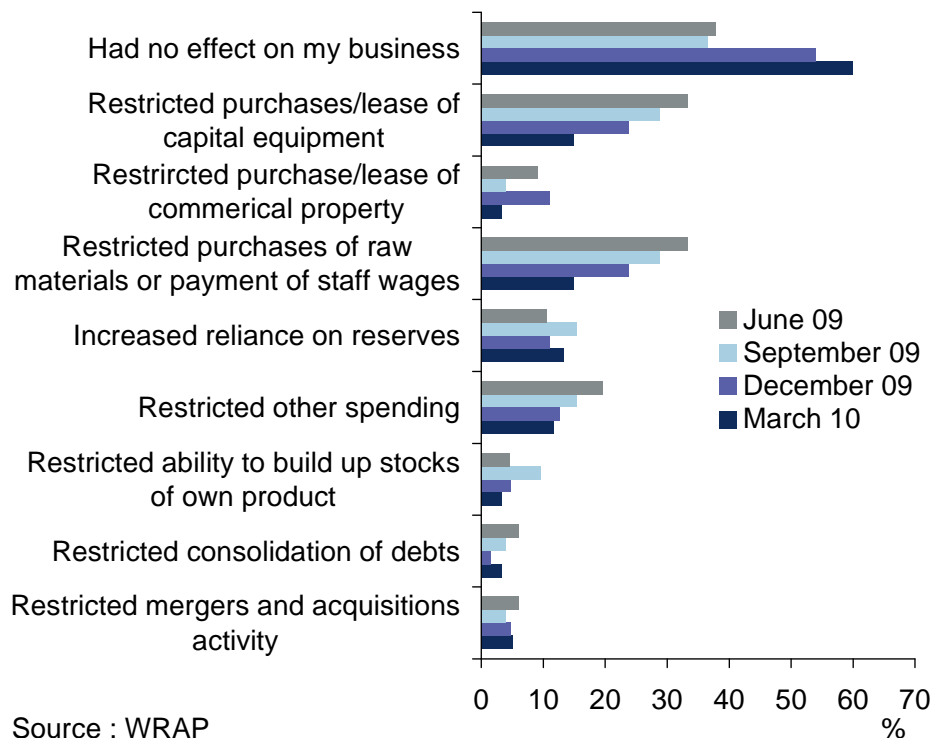
The balance of firms reporting higher interest rates on their loans was +2% in 2010Q1, 5 points lower than in 2009Q4. Half of firms reported no change in interest rates.

Although raw responses suggest that non-price conditions on existing and new external finance tightened during 2010Q1, the balance of firms reporting higher fees, at 20%, is the lowest since 2009Q1, while that for collateral requirements, at +9%, is the lowest since the survey began.

The proportion of firms that indicated that changes in finance availability or conditions had negatively impacted their businesses fell by 6 points to 40% in 2010Q1 (Chart 4). This compares with a

peak of 63% in 2009Q3 and is the same percentage as in 2008Q1, the quarter prior to the recession.

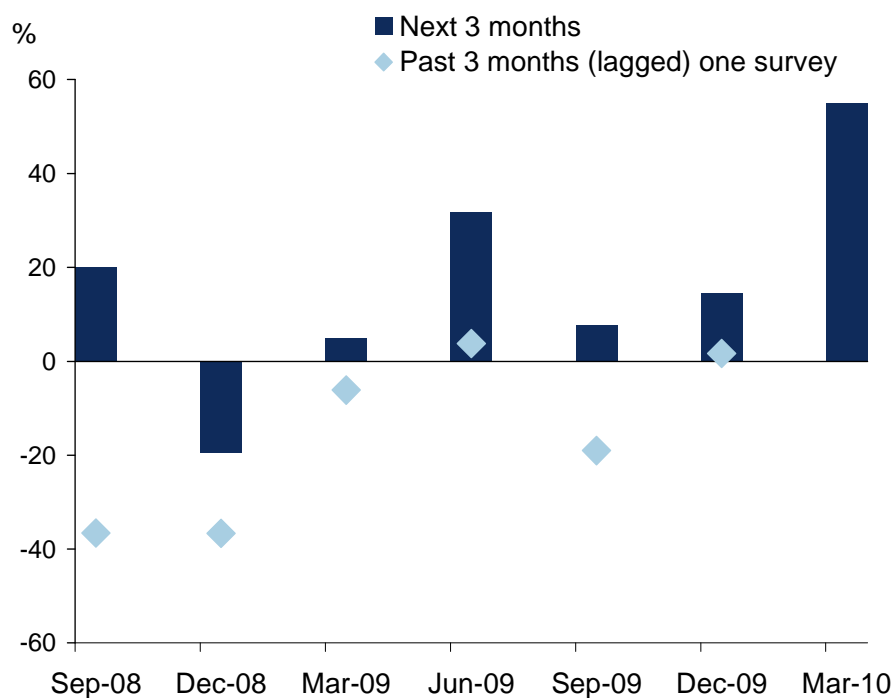
Chart 4: How changes in external finance (either volume or price) have affected respondents' businesses during the past quarter



Recycling firms' expectations about activity levels in the next quarter

The net balance of firms expecting their turnover to increase next quarter stood at +55% in 2010Q1, 40 points higher than in 2009Q4. This is the highest level since the question was first asked in 2008Q3 and suggests that firms expect turnover to recover strongly in 2010Q2. That said, in all previous surveys, firms' expectations have proved to be too optimistic (Chart 5). This may demonstrate the uncertainties faced by the recycling industry in the current economic climate, or it may indicate a systematic bias.

Chart 5: Net balance of firms expecting an increase in turnover over the next three months?



Source : WRAP

Recycling firms' expectations about access to and use of external finance in the next quarter

Only 28% of firms surveyed expect to access external finance during the next quarter, down 9 points from 2009Q4 and 13 points from 2009Q1. This is the lowest percentage of the nine surveys to date.

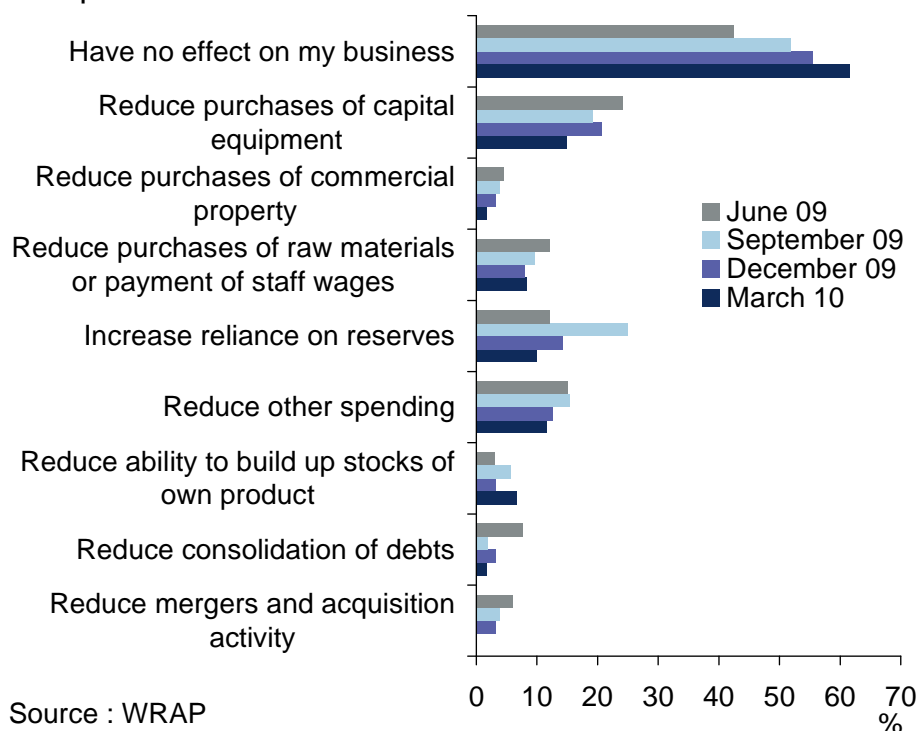
Of those planning to access external finance next quarter, 94% plan to use it to purchase or lease capital equipment and 18% plan to use it to purchase or lease commercial property. This is broadly similar to the uses of finance reported in backward-looking question in this survey.

6% of firms expect to access external finance to pay for raw materials and staff wages. This is the smallest percentage recorded since the survey began and compares with the 2009Q3 peak of 33%. Given firms' very positive expectations about their turnover in 2010Q2, this may reflect a greater confidence that they will have sufficient cash-flow to meet their working capital needs.

The balance of firms expecting the quantity of external finance available to them to rise in the next quarter stood at +17%, up from +3% in the previous survey. This is consistent with findings in the Bank of England's Credit Conditions Survey 2010Q1, which shows lenders expecting to increase the availability of credit to firms, particularly small ones over the next three months.

A net balance of +21% of firms expect an increase in the interest rates they pay on their loans, down 15 points from the previous survey (although only 12% actually experienced an increase in interest rates in 2010Q1). Fees and commissions are expected to rise by a net balance of +25% of firms. Similarly, a balance of +15% of firms expect collateral requirements to increase, down 5 points from the previous survey.

Chart 6: Expectations of how changes in external finance (either volume or price) will affect respondents' businesses during the next quarter



38% of the firms surveyed expect changes in external financing conditions to negatively affect their business in the next quarter (Chart 6). This level represents a fall to the same level as the quarter prior to the recession (2008Q1). In part, the relatively small impact may reflect the low numbers planning on accessing external finance over the period.

Conclusion

The results of WRAP's 2010Q1 survey of business and financial conditions within the recycling industry suggest turnover may have stabilised, after falling sharply in four out of the five previous quarters.

The dominant motive to access external finance remains to purchase or lease capital equipment. There has been an increase in the percentage of recycling firms seeking finance to purchase commercial property. As yet, few firms are accessing funds to undertake M&A activity, in contrast to the case in the wider economy.

40% of the firms surveyed indicated that changes in finance availability or conditions had negatively impacted their businesses during 2010Q1. This is significantly below the peak of 63% in 2009Q3 and the same percentage as in 2008Q1, the quarter prior to the recession.

Looking forward, the balance of firms expecting turnover to increase during 2010Q2 rose markedly, up 40 points to +55%. But relatively few firms expect to access external finance, perhaps reflecting increased ability to fund working capital from the cash-flow from increased sales. As a consequence, a smaller percentage of firms are expecting the availability and/or cost of finance to negatively impact their business during 2010Q2.

WRAP provides a business development service to the recycling industry completely free of charge. For help or advice about how WRAP can help benefit your business visit www.wrap.org.uk/businessdevelopment or call the WRAP helpline on 0808 100 2040.

To take part in WRAP's business conditions survey contact Andy Logan at alogan@oxfordeconomics.com or call 0207 803 1414 (existing participants do not have to re-apply).

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