

SUPPLY CHAIN

Market Update Bulletin

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STO BUILDING GROUP CENTER OF EXCELLENCE & INNOVATION

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Introduction

While we can report that some raw material pricing is stabilizing (copper and steel for example), others are bringing a new level of uncertainty with inflation and instability contributing to a feeling of volatility. Glass has seen a major spike in pricing and manufacturers of other materials will most likely follow suit in the coming months. External factors such as war in Ukraine, etc. have contributed to unpredictability and financial strain leading to increased rumblings of subcontractor defaults and also some AC equipment manufacturers closing plants and / or undertaking larger restructuring. Lead times for equipment has not recovered, nor do we expect it to in the short term. AC equipment has had very pervasive lead-times that have impacted project schedules. The key to dealing with these issues is better communication and being able proactively anticipate, adjust and maintain a nimble business approach. In this issue we seek to highlight areas of concern and options to help mitigate risk.

Logistics

Shipping/Logistics companies are improving processes through continued growth of air cargo and increased use of Gulf and East Coast ports while West Coast issues have impacts on the typical busy shipping season. Labor disputes in the rail, trucking and longshoreman contracts could create challenging bottlenecks in already congested warehouses and ports. Current trucker protests, due to state labor law disputes, are causing Port of Oakland disruptions that created a shutdown of almost all cargo operations. Inflation, fuel costs, labor disputes, labor shortages, and external factors all may lead to transportation volumes decreasing even while the demand is still strong.

Mitigation strategies

Tracking material and equipment at the initial stages of pre-construction, communicating issues from the source and providing alternates are all ways of working together with design teams to mitigate persistent lead times. Our teams have adopted proactive approaches to each individual situation in order to leverage our organizations strength in ensuring expectations and commitments are upheld. Read more strategies to address this challenge in our white paper linked on this page. Copies also available upon request.

Financial considerations

The overall strain in subcontractor's finances has reached a higher point than in recent months. Cashflow management to ensure the solvency of subcontractors is key. A number of chapter 11 filings has underscored the need for vigilance and communication to better understand the pinch points. Short term focus by subcontractors in building backlog of projects needs to be balanced with long term views on pricing escalation and determining where the material market pricing will be in the coming months. The financial health of our subcontractors is of utmost importance to ensuring the overall goals of our client's projects are achieved. Our analytical approach to pre-qualification has been invaluable in determining subcontractor's "health". Subcontractor Default Insurance is essential to mitigate large financial and schedule risk to any project.

Scan or [click to link](#)
to our White Paper
here:





HIGHLY IMPACTED MATERIALS/GOODS

- **HVAC Equipment** – Large equipment has been heavily impacted in recent weeks with delivery date commitments not being met. The closure of a significant AC unit manufacturer has had wide impacts and added to uncertainty. We are working closely with manufacturers to better plan and manage expectations.
- **Electrical Equipment** – Remains a highly impacted material group. No significant improvement in raw material and shortages of chips required to make breakers continues to exacerbate lead times for switchgears, UPS's, generators, panels, etc. to 30+ weeks, with larger equipment running at 36+ weeks. Fire Alarm devices have shown a slight improvement running at 4-6 weeks presently.
- **Roofing** – Manufacturer allotment programs are expected to continue into the first quarter of next year. TPO membrane roofing is running 36+ weeks, though in one bright spot Modified Bitumen membrane roofing is running 2-4 weeks. ISO board insulation remains a lengthy 52+ weeks, longer for tapered. Fasteners and plates to go through roofing insulation remain difficult to come by, with no delivery dates available.
- **Lighting** – standard light fixtures have shown improvements with very small deviations for volatility. Specialty fixtures and those tied to control systems, on the contrary, still require thorough tracking and monitoring, with lead times fluctuating anywhere between 16-24+ weeks. Lighting controls remain of concern due to chip shortages.
- **Electronics** – Microprocessors are still causing significant angst for manufacturers of electronic equipment. The (8) week shutdown in Shanghai has had lingering fall out with goods now moving but manufacturers having to air-freight goods. Controls solutions packages have improved somewhat to 4-6 months depending on specifics. Plastics have also been heavily affected as a result of this shutdown.
- **Appliances & Specialty Items** – Still significant lead times of over 40 weeks for “higher end” brands of appliances. Mainstream appliance lead times are in the 8–12-week timeframe. Toilet partitions are experiencing extended lead times of around 22-30 weeks, though at this time alternative manufacturers and models can improve timeframes.



NOTABLE COST CHANGES

- **General** – Manufacturers are reacting to raw material increases and especially, dramatically rising fuel costs. Fuel costs have also had an impact on the cost of logistics from manufacturers which is being passed along as well. Predictions are that materials costs will continue to rise but are being closely monitored.
- **Glass & Glazing Systems** – Pricing jumped in early June by over 40% from one of the main US glass manufacturers. This has had broad effects in curtainwall, interior glass partitions systems, etc. with notable pricing increases being passed along.
- **Drywall & Ceiling Goods** – Acoustical ceiling manufacturers have raised pricing recently by over 10-15%. With energy costs still rising another increase in the fall is imminent.
- **Concrete** – After the last surge of 25% as noted in our last issue, pricing has leveled off at that and looks like it will remain stable for a time.
- **Roofing** – “Pricing available at time of shipping” is still in vogue for many manufacturers. Volatility and sporadic supplies continue. Modified Bitumen roofing which had previously been less impacted than other products is now experiencing cost increases.
- **Millwork** – Manufacturers of casework materials have pushed pricing recently by 18-20%. Wood veneer remains flat, hardware for millwork has increased. Overall, we expect millwork pricing to increase in the coming months.



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