SUPPLY CHAIN

Market Update Bulletin

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STO BUILDING GROUP CENTER OF EXCELLENCE & INNOVATION

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Introduction

As we transition into what is shaping up to be a busy summer for construction, a "new normal" seems to be playing out with supply chain and its persistent, pervasive issues. With inflation running at a 40-year high and many saying that it's here to stay, subcontractors are finally having their "bid" pricing reflect more accurately the actual cost of materials. This is good news as "bid" pricing over the last couple of years has significantly lagged actual material costs producing a strain on subcontractor financial health. With better communication, subcontractors' pricing is now more realistically reflective of increased fuel costs, rising raw material costs, labor fluctuations, etc. The level of awareness of supply chain issues has risen dramatically, and therefore we are much better positioned to anticipate and program for these. In this new issue the team seeks to further highlight impacts and suggest options for minimizing risk.

Logistics

Peak shipping time has shifted earlier with importers getting a head start on the typical busy shipping in late summer/fall. This is, as a result of the pain endured last year in the 3rd and 4th quarters. Strain has been seen in trucking and warehousing due to labor shortages. Overall improvements have been made in communication and shipping / logistics companies investing in overhauling their existing operations to make them more efficient.

Mitigation strategies

Early planning and a hyper awareness of lead time issues has helped project teams communicate effectively with clients to manage expectations and minimize impacts to project schedules. Communication right from the source, the manufacturers themselves, is critical in understanding the issues at hand. We are rolling out internal means of electronically tracking materials and sharing "real time" information across the organization. Lead times are also tracked at a macro level with the CEI group and information shared on our internal channels. Read more strategies to address this challenge in our white paper linked on this page. Copies also available upon request.

Financial considerations

With increases in material pricing and subcontractors having burned off much of the PPP money they were given or forgiven, suppliers' credit terms tightening, etc. there is increasing pressure to ensure subcontractors adequately fund their companies and manage their financials. Cashflow has become more important than ever in ensuring stability in turbulent times.

Labor

Increased numbers of retirements during the pandemic have contributed to a deepening shortage of skilled construction workers. Recent activity in several collective bargaining agreements has also impacted projects, not least of which was a strike in the Pacific Northwest. Much of it seems to be localized but worth careful attention.

Scan or click to link to our White Paper here:

HIGHLY IMPACTED MATERIALS/GOODS

- **Electrical Equipment** – Breaker lead time concerns remain pervasive and no improvements yet. This has a “knock on” effect with all other electrical switchgear, generators, UPSs, etc. all running a minimum of 30 weeks, and some much more than that. Fire alarm devices which were 3-4 weeks are now 8-10 weeks.
- **HVAC Equipment** – Computer room AC units are now running well over 25+ weeks, as high as 40 weeks for certain brands. Custom air handler fans are running 50 weeks. As with many of these items, components coming from Asia impacted due to Zero COVID policy.
- **Roofing –** Many manufacturers are now working on an allotment program, meaning suppliers and subs are only being allotted certain amounts of material at a specific time. This means warehousing and cash outlay are large factors in securing materials and little to no flexibility. Lead times are currently at 30 to 40 weeks for many products.
- **Metals** – Raw materials sourcing has had huge impacts. Nickel and copper seem to be the most affected. Aluminum still needs to be carefully monitored.
- **Doors & Hardware** – Slight improvement but still running 16–18-week range with distributors not having consistent inventory or product “flow.”
- **Lighting** – Standard light fixture types have stabilized somewhat. Specialty fixtures and “higher end” more sophisticated lighting needs a lot of vigilance especially lights which have microchips and controls packages.
- **Electronics** – Hardware for brand name controls solution packages are now running 6-10 months with no inventories to pull from. Fiber cable which typically ran 10 weeks now running well over 3 months and growing due to glass issues.
- **Appliances & Specialty Items** – Specialty and “higher end” brands of appliances are now running 40+ weeks. Food service equipment and products are in very high demand and have been impacted. Toilet partitions and accessories are experiencing extended lead times, though at this time alternative manufacturers and models can improve timeframes.

NOTABLE COST CHANGES

- **General** – A raft of “pricing update” bulletins have been issued from many manufacturers across all material spectrums in the last month. Most are in the 10-15% increase range and blame rising costs of raw materials, shipping, fuel, etc. Subcontractors are passing these along in bids and revised bids.
- **Roofing** – “Pricing available at time of shipping” still in place for many manufacturers. High volatility and sporadic supplies continue. Modified Bitumen roofing which had previously been less impacted than other products is now experiencing cost increases.
- **Drywall & Ceiling Goods** – Updates announced recently from manufacturers are in the 10-15-20% range for studs and gypsum products.
- **Concrete** – Shortages in raw materials, logistics issues and fuel charges are driving concrete pricing about 25% higher in the Southwest.
- **Appliances & Specialty Items** – Still trending sharply upwards with many brands 30% increase since start of 2022.
- **Glass & Glazing Systems** – Pricing is still volatile, and inventories are minimal, with pricing increases projected well into 2023.
- **Lumber** – Futures pricing has fallen 50% from highs in March. Pricing is a leading indicator of supply chain and inflation issues and signals better news for sure.

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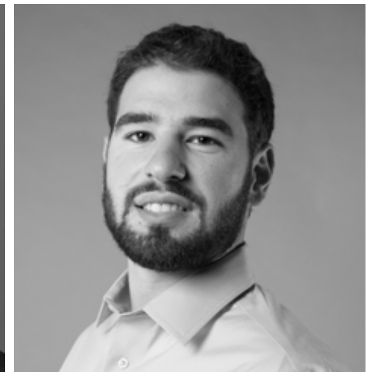

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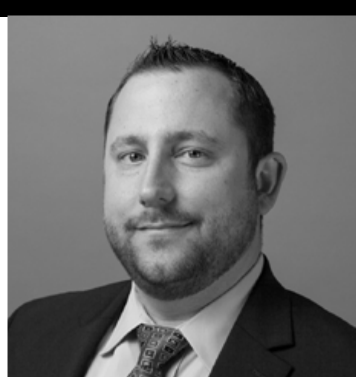

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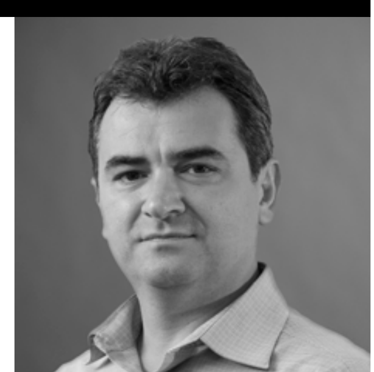

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