

SUPPLY CHAIN

Market Update Bulletin

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STO BUILDING GROUP CENTER OF EXCELLENCE & INNOVATION

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Introduction

As lead times improve for many items, equipment containing electronics of any kind are still suffering with lead times uncertain of when they will be improving—it feels like "if ever"! Overall pricing of materials has been rising steeply, subcontractors' credit terms with suppliers are scrutinized, insurance costs soar, and we are left concerned about the viability of those who have not implemented strong financial practices. With much to concern us, we have found that difficult circumstances can be a catalyst to bring about the seed of innovation and are shaping better and more visible practices in the manufacture, fulfillment, and distribution of material and equipment in our industry. To that end STO Building Group is on the leading edge of bringing about change in our industry that we hope will make processes simpler, transparent, and more efficient. Our partnerships in the technology and manufacturing realms are working towards a marketplace that will provide greater efficiencies and productivity.

Logistics

An agreement on a new labor contract between rail workers and unions averted the possibility of what could have been a disastrous strike since rail accounts for 28% of US freight movement. Many suppliers were limiting exposure by transporting products via trucking (40% of freight movement) but the short-term impact has worsened the situation as they already faced a shortage of 80,000 drivers and has lead times up to 20 days for trucks in certain parts of the country. Cargo at Central America, East, and Gulf ports is slowing due to more West Coast volumes being diverted. Additional labor disputes with West Coast dockworkers, trucking, British rail unions, China's lockdowns, and weaker economy will have impacts on the upcoming busy shipping/holiday season. In short, fuel costs, global economy, freight rates, demand and other external factors will have large impacts very soon.

Mitigation strategies

Our project teams have adopted proactive approaches to leverage our organization's strength in ensuring expectations and commitments are upheld: tracking material and equipment at the initial stages of preconstruction, communicating issues from the outset, and providing alternates. Find strategies to address this challenge in our white paper linked on this page. Copies also available upon request.

Financial considerations

Given the current economic climate, the financial well-being of subs is essential. Our national purchasing, prequalification, and risk groups have a holistic approach to qualify and award contracts and to ensure timely cash flow, especially with large material procurement and long duration projects. A number of recent sub defaults in major markets emphasizes the need for enhanced communication and vigilance. Increasing construction volume means subcontractors are balancing material procurement, building backlog, and forecasting pricing escalation and labor availability. STO Building Group's multifaceted approach to regular sub prequalification, knowledge of local market, and offerings such as Sub Default Insurance are instrumental in identifying and mitigating financial and schedule risk to projects of all sizes, markets, and categories.

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





HIGHLY IMPACTED MATERIALS/GOODS

- **HVAC Equipment** – Heavily impacted in all aspects, especially as AC units usually include microchips. No end in sight of what seems to be vast over-commitment by manufacturers and the long lead times are firm and shipping is volatile.
- **Electrical Equipment** – Standard breaker availability has improved somewhat. Switchboards are still highly impacted. Anything in the critical power train systems (PDU, UPS, ATS, Generator) is typically over a year out. Smaller, rack-mounted UPS are more readily available. Lithium-ion batteries remain problematic. Supplies of microprocessors is still a long-range problem.
- **Roofing** – Vendor stock of roofing materials is better than at this time last year; however, the recent increase in hurricane activity is poised to throw this element of the supply chain further into turmoil. Storm damage from Ian will no doubt have a heavy impact on production as much roofing material flows through the ports on the West coast of Florida which are pivotal. TPO (Thermoplastic Polyolefin) roofing membrane, one of the fastest growing and most popular roofing materials, is not expected to improve before Q2 or Q3 of 2023.
- **Lighting** – Larger manufacturers have for the most part good inventory and ability to supply. Lighting that has addressable digital controls drivers can run in the 20-36 week range for lead times. Supplies from the controls manufacturers have been very slow and their parts are integral to “controlled” lighting solutions. With demand running high the issue will not improve anytime soon.
- **Electronics** – Continual and persistent microprocessor manufacture and availability issues are continuing to cause significant lead times for manufacturers of electronic equipment. Some major manufacturers are running as long as a year for essential parts. Alternates to major brands have more availability and we find clients are open to substitutions over holding out for major brand names.
- **Appliances & Bathroom Accessories** – High end manufacturers are running 12-14 months with no sign of abating. Mainstream models are improving to an average 4-8 weeks. Partitions and accessories are mostly back under 8 weeks for non-specialty.



NOTABLE COST CHANGES

- **General** – As fuel costs start to taper off, rising insurance rates and overall inflation and geo-political influences continue to push materials costs higher.
- **Glass & Glazing Systems** – After a major jump of 40% by one main manufacturer earlier in the year, incremental increases before and after this have produced a net increase of around 60-80% in a year. Curtainwall, interior glass partitions systems, etc. have all had significant jumps in price as a result. Along with added shipping costs, this trade has had a large impact.
- **Drywall & Ceiling Goods** – Acoustical ceiling products are expected to increase by another 10% imminently. Insulation costs are expected to rise by 10% as well. Specialty ceilings and associated shipping costs seeing increases between 5-15%.
- **Fire Protection** – Increases in the last year have recently impacted this trade at local supplier levels with sprinkler heads up over 50%, cast iron fittings up 60%, and steel and copper piping up 40%. Pre-action systems are running 40% up in a year. All this while commodities pricing has been dipping. Local pricing should stabilize in the coming weeks.
- **Roofing** – While there are currently more options for material expediting available, that can often entail increased logistics costs related to shipping materials from alternate locations.
- **Millwork** – Material pricing is moderating with veneer now up 10% and casework beginning to level off.



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