



STO BUILDING
GROUP

SUPPLY CHAIN

Market Update Bulletin

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STO BUILDING GROUP CENTER OF EXCELLENCE & INNOVATION

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INTRO

Owing to the current state of volatility and risk being experienced in the economy and especially in supply chain of construction materials we have moved up our intention to provide a market update at the end of June to now. We believe STOBG provides a unique perspective based on our broad geographic business unit location base and also the overall strength of the company and its reach and relationships with all national material manufacturers. While we understand many of the concerns and issues, we are also seeking to use our strength of relationships and visibility into the supply chain to leverage and mitigate problems where possible.

Factors

With that said, an interconnection of a number of major factors have greatly impacted both material lead times and costs. The major factors can be traced to the legacy of COVID slowdowns (and still continuing lockdowns especially Canada), Gulf Coast storms, West Coast wildfires, labor shortage (severely impacting logistics), etc.

Approach

Our approach will always be to exceed our client's expectations, managing the risk by developing strategies to overcome these obstacles, such as our groups prior published paper on "Supply Chain – Methods of Approach to Interruptions" published in May 2020. Overall, we hear that many of the issues as noted in more detail below will be tempered or reduced in the mid-late summer.

Production/Inventories

- Legacy effects of worker quarantines, social distancing, etc. has meant lower overall outputs and many items are running lower in stock and availability than normal.

Logistics

- Proving more than ever to be extremely challenging and currently the greatest single issue for construction supply chains.
- Ground transportation—issues across all industries have been well documented in the press and politicized due to current unemployment benefit payments. The demand for drivers only seems to grow and companies are finding themselves paying large premiums due to this. The American Trucking Association says 60,000 truck drivers are needed to meet the demand nationwide.
- Shipping—congestion at ports has been the result of a consumer driven import boom, 30% year on year growth in containerized imports to the US from Asia. There have been (10) months now of year on year growth in container imports.
- Labor shortages in logistics coupled with this increase in imports has only served to compound the issues. A "cooling off" is anticipated in the summer months.



HIGHLY IMPACTED MATERIALS/GOODS

- **Steel**—prefab joists 4-month minimum lead time due to surge in warehouse and distribution center construction
- **Steel**—some sheet metal producers are intentionally slowing supply due to concerns that product manufacturers are stockpiling, leading to overall shortages in supply and impacts on cost (see below).
- **Insulation**—in very short supply, standard mineral wool has (20) week lead time. Specialty insulation is at least (4) weeks more.
- **Resin products**—greatly impacted due to weather in Gulf Coast. Used in production of plastics (appliances, etc). Has led to some appliance manufacturers having 5–8 month lead times. Also impacts piping production which has seen a notable shift in their production from commercial to residential, leading to shortages in the commercial sizes.
- **Lumber**—supply of board goods such as plywood and MDF have been in short supply mainly due to a boom in residential demand.
- **Electronics and Appliances**—semiconductor chip shortages highly publicized around the auto industry have also been seen in any products that use these parts. Resin has also played into the delays.
- **HVAC and Electrical Large Equipment**—especially AC equipment has seen a marked increase in lead times close to doubling in the last (4) weeks, going from a normal 4–5 weeks to now 8–10 weeks. Due to availability of sheet-metal and also semiconductor chips.
- **Logistics goods**—wooden pallets and corrugated paper products also have a very noted shortage. Probably in large part due to the rise in consumer products logistics.
- **Concrete**—especially noted in the more southern states, lack of fly-ash and cement have lead to 5–6 days of delays in supply in a products that rarely sees any impacts.



NOTABLE COST INCREASES

- **Steel**—Hot rolled coil, as a “barometer” – still climbing even from our last paper, from \$500mt in May '20 to close to \$1,700mt today.
- **Drywall materials**—Steel studs due to rise in hot rolled coil have seen monthly cost increases of around 10% per month. Insulation costs up sharply (if it can be found!).
- **Metals**—copper piping has jumped due to raw material increases with futures from Jan \$3.5 to now \$4.6 today. Bronze has also seen a rise in popularity and pricing going from \$2k/sheet to over \$3.4k/sheet.
- **Lumber**—cost has soared mainly in response to residential consumer demand. Softwood lumber has risen over 84% in a year. Plywood costs have gone over 200% in a year.
- **Ceiling grid**—as a product of sheet metal has had pricing impacts of around 10%/month from beginning of 2020. Another increase announced for July.
- **Paint**—paint, paint containers and adhesives, all experiencing shortages and anticipating a 10% increase in cost in June.
- **Flooring materials**—up around 8–10% mainly due to resin impacts.

