STO BUILDING GROUP

SUPPLY CHAIN
Market Update Bulletin

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STO BUILDING GROUP CENTER OF EXCELLENCE & INNOVATION

Lead Author: David C. Hamilton, *Vice President, Dir. of Purchasing*

INTRO

As your trusted construction partner, we continue to closely follow and monitor the economy continuing to grow in strength with commerce and e-commerce rapidly developing. Issues in the supply chain environment and especially construction supply chain have certainly not been eliminated but in some cases have deteriorated. A mentality shift from just-in-time to just-in-case has been felt and seen in the marketplace. This has had significant impact on logistics as outlined below. It seems each manufacturer or product and each step of the process has its own set of issues. Most are projecting at least a year before we will see significant improvement. We hope this bulletin helps you in your understanding of the challenges being faced and helps you plan strategies to minimize impacts.

Logistics

Certainly, the most impactful part of the cycle.

- **Shipping** – some companies have chartered their own container ships to try to ensure product arrives sooner. Container costs have risen to over $15k each (China – NYC) from $2,500 in 2019. These high costs have some distributors letting inventory levels run very low in anticipation of container costs eventually dropping.
- **Ports** – congestion at ports has gotten much worse in the last couple of weeks. Recent reports state over (70) container vessels waiting to unload at LA and Long Beach. Savannah, GA port has seen a 30% jump in shipping volume from a year ago.
- **Trucking** – driver shortages have been from the 60,000 behind in 2019 to projections of over 200,000 behind in 2023. Truckers are blaming shipping terminal congestion on them having to skip scheduled pick-up appointments.
- **Rail** – log jams of container-laden trains outside of Chicago, which is a major hub for distribution, has wreaked havoc with some companies waiting 10 weeks for goods to clear. One rail company stopped containers moving inland to clear the log jam.

Financial strain

Cashflow has become even more critical for subcontractors who continue to feel the pressure between suppliers eliminating credit terms, increasingly requiring deposits and end user clients delaying payments. Effective use of Subcontractor Default Insurance can help de-risk this volatile situation. Use of deposits to secure manufacturing slots is vital to locking in opportunities to ensure materials schedules are achieved. Where feasible, STOBG will work towards securing large material elements direct with manufacturers in conjunction with client teams to minimize schedule issues.

Mitigation strategies

On the following page we have outlined some specific issues in lead times and cost. In order to off-set these items we would also recommend, for your perusal, a paper produced by this team in mid-2020 called “Supply Chain – Methods of Approach.” Feel free to request a copy.

Scan to link to our White Paper here:

HIGHLY IMPACTED MATERIALS/GOODS

- **Electronics and Appliances** – no improvements have been seen, some brands have gone longer and some we hear are temporarily pausing production. Microprocessor supply seems to be the main issue.
- **HVAC and Electrical Equipment** – lead times from manufacturers continue to grow. Mainly due to stock of base components / materials (silicon resin, chips, base metals, etc.). Lead times now running weeks over normal. CRAC units 14-20 weeks, Custom air handlers 40 weeks, standard AC units 14 weeks +.
- **Roofing & Insulation** – no letup in supplies. Base materials are in very short supply. Lead times for certain products running anywhere from 20 to 40 weeks. In some cases, substitutions for lightweight insulated concrete could be used in lieu of ISO board insulation.
- **Steel** – open web steel joists having lead times of 12 months or more. Steel decking also running 6-8 months on average. Large increase in data center and industrial construction is impacting this.
- **Plumbing Fixtures** – overall caution to be exercised as some manufacturers have had logistics issues and lead to much longer lead times than normal.
- **Glass** – seeing slightly longer times 7-8 weeks from domestic producers due to uptick in demand since overseas material is taking much longer and companies are opting for domestic product.
- **Paint** – has still been experiencing some "legacy" issues from the stall in raw material production after the TX freeze.
- **Tile** – any tile manufactured overseas is seeing port congestion as an issue.
- **Metal Framing** – running 3-4 week lead time but we hear this may increase quickly.
- **Flooring** – now running 2-4 weeks beyond pre-pandemic, which averaged 5 weeks. Any overseas product running much longer, typically 10 weeks plus.
- **Doors & Hardware** – wood doors running much longer than normal (10-12 weeks in some cases). Hardware, where electrified is dependent on the availability of components which are highly impacted.

NOTABLE COST INCREASES

- **Drywall Materials** – most materials (metal framing, insulation, and sheetrock) up over 40-50% from Jan 1.
- **Ceiling Materials** – grid up almost 40%, tile around 10%, both from Jan 1 pricing. More intense competition has helped cap potential pricing increases.
- **Flooring Materials** – increases in the 7-10% range from Jan. Domestic products have helped keep this stable but any international products bring much more volatile pricing and lead-times.
- **Lumber** – pricing has stabilized in the last months after showing great volatility in the prior year. Currently futures are around $650 and have been there for some time. This is still a notable increase from pre-covid levels.
- **Data Communications/Audio Visual** – cabling especially has seen notable increases of over 25% since Jan 1. The microprocessor shortage has also played into pricing changes.

CONTRIBUTORS

JUSTIN ACQUAVIVA, LEED® AP
Purchasing Manager, Woodbridge, NJ
Structure Tone
jacquaviva@structuretone.com
609-658-6347

REBECCA BAILEY
Preconstruction Manager, SE USA (FL, GA, AL, SC, NC)
Ajax Building Company, LLC
Rebecca.Bailey@ajaxbuilding.com
678-365-3153

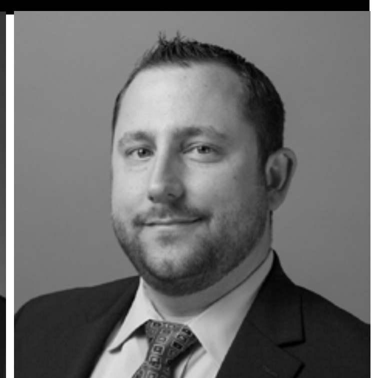
GREG COURTMAN
Estimating Manager, National Structure Tone Global Services
Gregory.Courtman@STOBuildingGroup.com
347-491-2813

STEPHEN DENNIS
Estimating Manager, Philadelphia, PA
Structure Tone
Stephen.Dennis@structuretone.com
215-563-7875

BRET FIELDS
Director of Preconstruction, CA
BCCI
Bret.Fields@bccconst.com
415-817-5116

JASON FRENCH
Director of Purchasing, TX
Structure Tone Southwest
Jason.French@structuretone.com
214-525-5142

DAVID HAMILTON (Group Lead)
Director of Purchasing, National
STO Building Group
David.Hamilton@structuretone.com
212-251-9389



BRIAN S. LYNCH
Purchasing Manager, Boston, MA
Structure Tone
Brian.Lynch@structuretone.com
617-348-2800

DESMOND REA
Purchasing Agent, New York, Long Island
Structure Tone NY
Desmond.Rea@structuretone.com
917-842-0982

SILVIU STOIAN
Vice President, Estimating, Toronto, Ontario, Canada
Govan Brown & Associates
Sstoian@govanbrown.com
416-703-5100

STO BUILDING GROUP