STO BUILDING GROUP

SUPPLY CHAIN

Market Update Bulletin

Nov-Dec 2021

STO BUILDING GROUP CENTER OF EXCELLENCE & INNOVATION

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INTRO

As we continue to move ever more quickly into the holiday season, we are glad to be able to bring this update to you from our experience and reach across North America. Our national team of purchasing and procurement specialists, who meet weekly and also share info and updates throughout the week, is dealing with the struggles and issues daily and helping to manage our project deadlines. Our relationships, teamwork, leverage, and reach within the construction industry manufacturer community has been invaluable in being able to strategically source, realign, and secure production slots to ensure we fully meet our clients' expectations. We hope to be able to help you plan strategies to minimize impacts and are here to help in any way we can… please see page 3 for contact information.

Logistics

There seems to be a "fragility" to the flow of goods where, when a disruption occurs, it tends to have a higher-than-expected impact.

- **Shipping** – container costs still running very high with no sign of easement. Record numbers of ships waiting to be offloaded – now running over 85 in LA.
- **Ports** – slow adoption of the government push for 24-hour shifts. Only 1 terminal operator currently offering 24-hour operations, out of 13! Logistics companies are blaming onerous pickup rules for trucks to move goods.
- **Land Transportation** – driver shortage has hit almost 80,000. The increase is due to several factors including the high average age of drivers (i.e., retirements) and also the federal age minimum of 21 for driving commercial. In Western Canada, heavy rains and flooding cut off Port of Vancouver rail service, causing heavy disruptions.
- **Advice** – check and check again! Last-minute changes and delays are very difficult to track and manage and are becoming more prevalent. With the rollout of more digitization, we expect to have better visibility into predicting and planning for issues.

Financial strain

Our deep and robust approach to subcontractor pre-qualification has been invaluable in determining subcontractors' overall "health;" however, Subcontractor Default Insurance is essential to mitigate large financial and schedule risk to any project. Government assistance in Payroll Protection Program and employment tax credits have been crucial but can also create surplus cash, a false sense of security that needs to be properly managed.
A high degree of analysis is needed when awarding subcontracts to ensure workloads and abilities are matched – "right subcontractor for the right job." Cashflow planning with the subcontractor at the initial award is also critical.

Mitigation strategies

To off-set lead time and cost issues, we recommend reading a white paper produced by this team in mid-2020: "Supply Chain – Methods of Approach." Feel free to request a copy.

Scan or click to link to our White Paper here:

HIGHLY IMPACTED MATERIALS/GOODS

- **Roofing** – lead times can be 20 to 40 weeks, depending on material, with no guarantee of pricing. We strongly suggest making early preparations to mitigate and using only reputable companies.
- **Electronics & Appliances** – strain in the market for goods that contain microprocessors. Any piece of equipment that has a "chip" is affected, from AV goods to water bottle fillers to controllers of any kind. Lead times only seem to grow.
- **HVAC & Electrical Equipment** – same as above with microprocessors. All equipment lead times seem to be creeping by an additional 2 weeks every 6 weeks. Hoping it will stabilize in early 2022. Panelboards running 6 weeks or more; GFCI breakers are running very low in supply generally and beginning to impact projects.
- **Steel** – the ever-increasing demand for fulfilment centers spurs the need for open web steel joists, now with lead times of 12 months or more. Steel decking 6-8 months on average.
- **Plumbing Fixtures** – exercise overall caution as some manufacturers have had logistics issues and led to much longer lead times than normal.
- **Glass** – specialty glass manufacturers are struggling to meet demand with differing pressures from within their supply chain.
- **Paint** – still catching up from the resin shortages earlier in the year. Raw material costs up over 20%. Depleted inventories prior to the interruptions had a compounding effect. Projected to fully recover within 5 months.
- **Flooring** – still worth noting that lead times are holding at 2-4 weeks beyond pre-pandemic, which averaged 5 weeks. Any overseas product running much longer, typically 10-plus weeks, issues at ports and logistics to blame.
- **Doors & Hardware** – wood doors running in short supply and very long lead times, in some cases over 16 weeks. Security hardware should be closely tracked as issues are persisting.
- **Lighting** – highly dependent on manufacturer, but lead times are holding consistently longer than normal and special care should be taken with decorative fixtures where lead times are not so controlled. Again, dependent on microchip shortage.

NOTABLE COST INCREASES

- **Roofing** – Some suppliers will not submit pricing until materials are delivered to the jobsite, thus creating volatility.
- **Drywall & Ceiling Goods** – most materials (metal framing, ceiling grid, insulation, and sheetrock) up over 40-50% from Jan 1.
- **Aluminum & Glass Assemblies** – currently noticing a 10% increase. Revised recent tariff agreements may help to contain any further increase. Inventories have run lower than normal.
- **Copper** – cabling, piping, etc. has seen very recent increases. Copper pricing took a pretty sharp upturn in October and early November to almost May '21 levels but has since declined a little.
- **Concrete / EFIS** – around 7-10% recent increase for concrete. Raw material and trucker shortages are contributors.
- **Labor** – while this paper deals primarily with materials issues, it should be noted that in certain areas (TX and Canada) we are experiencing labor shortages within specific skilled trades. This seems to be regional for now but as workers return to offices, we anticipate more issues.

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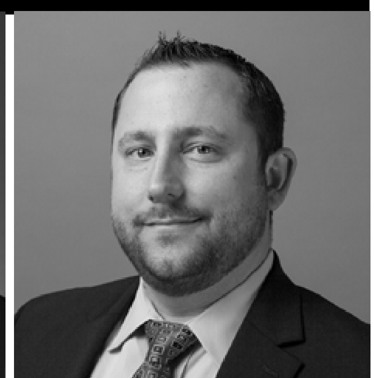

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