STO BUILDING GROUP

SUPPLY CHAIN
Market Update Bulletin

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STO BUILDING GROUP CENTER OF EXCELLENCE & INNOVATION

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Introduction

In the construction industry, we are thankful to observe continued growth and a bullish attitude towards many of the headwinds that we experienced through much of 2022. We have noted that differing sectors within the overall industry are experiencing growth / contraction at varying levels, such as a pullback in corporate interiors (especially for tech giants) but a significant uptick in industrial and data centers. This has had a notable effect on the suppliers and subcontractors who service those specific industry sectors, and those who service in a diverse manner across different sectors have fared best. Our companies' ever-expanding reach, deep relationships with manufacturers, and commitment to continual improvement in the construction supply chain arena has given us a tremendous advantage in bringing our clients a best-in-class approach to project management and delivery. Economies of scale and synergistic relationships are two areas where we have flourished and are confident in building upon in 2023 and beyond.

Logistics

Skilled labor and transportation remain an ongoing challenge for the construction industry. Overland, elevated diesel fuel cost and a potential railway strike are complicators in the Q4/Q1'23 supply chain; while at sea, port operators are shifting cargo to the East Coast to minimize distant trucking and distribution bottlenecks. The result will be an influx of record trade through the primary eastern ports for risk-adverse overland shippers in the short term, and hopefully easing as the supply chain lightens in capacity. Long-term contingency plans revolve around redundant sourcing, and potentially re-shoring, of critical components within assemblies and systems. The enduring lesson of previous disputes and cargo diversions highlights the sensitivity of the global supply chain to sudden impacts and finding multiple solutions to any potential challenges in advance.

Mitigation strategies

Communication of issues remains of utmost importance. This entails regular follow-ups with producers, suppliers, and subcontractors to track materials and equipment throughout the course of the project, as well as to offer alternatives when appropriate. In our white paper, which is linked on this page, you can find solutions to this problem. Copies upon request.

Financial considerations

Subcontractor financial health and prequalification remain highest priority tasks in the current economic circumstances. A thorough review of financials and current and upcoming workload are taken into consideration in the sub evaluation and award process to mitigate risk of defaults. Sub Default Insurance (SDI) is proving ever more essential with a number of sub defaults in the last six weeks. Suppliers and distributors are actively minimizing risk by shortening or significantly reducing their credit terms to subs. This has necessitated us working a lot closer with suppliers to ensure the flow of payments, and thus materials, to projects. The interesting dynamic to note here is that even though the market conditions are adverse, there has been an increase in the volume of construction, which can also be a contributor to an over-heating effect.

Scan or click to link to our White Paper here:

HIGHLY IMPACTED MATERIALS/GOODS

- **General** – The labor force and supply chains appear to be keeping up with the general demand, although holiday-related production closures and slowdowns will result in isolated but significant lead time increases through the beginning of 2023.
- **Roofing – "**Normalcy is still a way off!", to quote one of the largest distributors in the US! Although there have been slight advances in lead times, tracking and early ordering remain crucial. We've been instructed to anticipate impending price increases.
- **HVAC Equipment** – Lead time issues continue to be exceedingly stubborn and persistent. Circuit board, microprocessor, and fan manufacturers are still significantly impacted. No particular manufacturers seem to be exempt, so we advise tracking orders regularly and maintaining frequent contact.
- **Electrical Equipment** – Electrical breakers continue to be a problem, particularly for some manufacturers, therefore we advise looking at a variety of sourcing choices to find the optimum lead times.
- **Lighting** – A slight relief in the supply chain congestion has led to improved lead times for light fixtures. Larger manufacturers are once again starting to maintain a healthy inventory of commonly specified fixtures, with the ability to supply them in favorable time frames. Controls continue to be an area of concern as the supply from manufactures is still slow while demand remains high.
- **Electronics** – Supply constraints in essential computer chips continue to impact availability of components such as fire alarm devices, HVAC and lighting controls, and appliances. As manufactures adapt, the challenge has shifted from "across-the-board" to specific products. Alternates to major brands have more availability and we find clients are open to substitutions over holding out for major brand names.
- **Steel Joists & Deck –** Lead times for joists and deck have returned to historical norms of approximately 16 weeks from order to delivery (including design, approvals, etc.). While the market for these materials is still strong, additional capacity has been brought on domestically to better meet the current level of demand.

NOTABLE COST CHANGES

- **General** – Inflation continues to drive total cost increases, but if, as is most likely, the market begins to level off in 2023, the excessive inflationary expenses that were seen through 2022 will plateau. Increasing transportation costs due to the price of fuel is the largest influence on material prices overall. Geo-political effects have deep impacts.
- **Glass & Glazing Systems** – Following the 60-80% increases this year, it is anticipated that the frequency of increases for storefront and curtainwall systems will ease in 2023. For proprietary demountable glazing systems, a notable increase in availability with reduced lead times and strong pricing competition among vendors have made these systems a more viable option.
- **Drywall & Ceiling Goods** – General carpentry materials are stabilizing into a new normal of elevated costs and lead times in comparison to pre-pandemic levels, with no major changes announced for Q4/Q1'23. Non-standard ceiling materials remain concerning with extended lead-times and depreciated flexibility in costs among manufacturers.
- **BMS Controls** – We have noticed in the last few weeks a significant "bump" in the cost of building management systems controls installations, which control heat, lighting, etc. Since these are proprietary to many buildings and competition is thus eliminated, it becomes difficult to "control" (pardon the pun!) and manage expectations.

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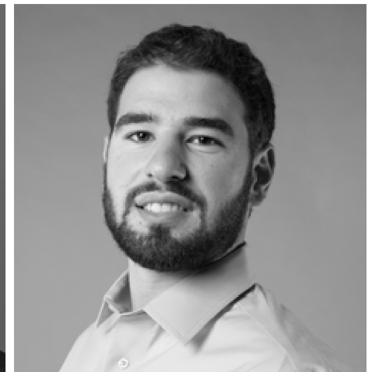

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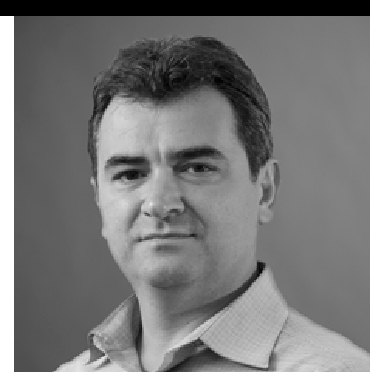

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