

SUPPLY CHAIN

Market Update Bulletin

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STO BUILDING GROUP CENTER OF EXCELLENCE & INNOVATION

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Introduction

Across the country, we're seeing steady growth as confidence continues to build. Although some geographic areas—the middle west coast for instance—are experiencing stagnation in workload, backlogs in general remain sturdy and support a fairly optimistic view that inflation will calm down, helping markets regain a sense of normalcy. While lead times for materials have improved, project schedules have also been adapted to proactively manage these challenges. Very real economic concerns persist with subcontractors' abilities to navigate financial issues. Subs ensuring backlog by being competitive while costs of materials and labor is rising is a concerning balance for us to monitor. STOBG's family of companies take great care in working with and coaching our valued trade partners in these challenging times, providing the necessary support and backing to ensure their viability and "best-in-class" approach to executing our clients' projects and visions.

Logistics

With most major sources suggesting that shipping and freight issues are fading, many are still urging a great deal of caution. Shipping container pricing has dropped dramatically, but the high price of diesel means road freight costs remain high. Congestion has eased at the major US pain-points, such as west coast ports. There are well-documented reliability issues with rail transportation. Following the devastating earthquake in Turkey which impacted the country's largest port, any materials being exported are experiencing at least a two-week delay. Exports of natural stone and steel must use alternate ports.

Mitigation strategies

The timely communication of issues is key. This entails regular follow-ups with producers, suppliers, and subcontractors to track materials and equipment throughout the course of the project, as well as offering 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 prequalification and financial health checks remain high priority tasks. While west coast subcontractors seem to have capacity, with limited reported defaults, the northeast has experienced a marked uptick in subcontractor defaults. To mitigate this risk, we continue to take an exhaustive review of financials paired with current and upcoming workload review in the sub award process. Subcontractor Default Insurance (SDI) is crucial in the current economic climate to ensure subcontractor replacement occurs quickly with minimal impact. Cash flow is key in making sure our trade partners can provide adequate workforce numbers and procure materials efficiently.

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





HIGHLY IMPACTED MATERIALS / GOODS / LABOR

- **General** – Manufacturers are gradually returning to a more normal level of production but as noted below, some are still experiencing persistent issues that show no sign of receding. Impacts from global events such as the earthquake in Turkey can have detrimental effects that linger.
- **HVAC & Electrical Equipment** – Lead time issues continue as vital components like microprocessors hold up overall production of units and lead to long-term challenges. Mitigation strategies are being implemented but effects will probably not be noticed for some time. Continued growth in the Mission Critical sector (data centers) means AC and electrical equipment is still in high demand.
- **HVAC & Lighting Controls** – Manufacturers of control systems for both lighting and HVAC are dealing with a lack of supply when it comes to electronic components, causing significant lead times for these systems. With high demand for the electronic components used across many industries, this issue seems to be a long-term challenge with little relief on the horizon.
- **Doors & Frames** – Wood door product suppliers are optimistic that long lead times due to the labor shortage that plagued much of 2022 will lessen in coming months. Current lead times for standard wood veneer doors are running 12-14 weeks on average. Procurement of exotic or reclaimed wood doors remain a challenge and can take more than 20 weeks.
- **Electronics** – AV control systems are still experiencing very long lead times of around one year with no alternate sources of components available.
- **Labor** – From laborers and carpenters to estimators and accountants, skilled labor and experienced personnel have seen a net loss due to a variety of factors, not the least of which is the retirement of the boomer generation. The migration of skilled commercial and industrial labor to residential projects is further limiting the labor pool, particularly in non-union markets. As the residential boom crests, we can anticipate easing in the labor market.



NOTABLE COST CHANGES

- **General** – With an unexpected rise in inflation reported this January (per Bloomberg), it looks like higher prices are here to stay. While some raw materials prices have been falling, subcontractors are not experiencing much to any reduction in cost of products or equipment. To remain competitive, we feel subcontractors are absorbing any increases in material pricing in their bids. Coupled with rising wage costs, this has put considerable strain on subcontractors' ability to remain profitable.
- **Data / IT infrastructure** – Copper restrictions have impacted cabling pricing. We find material quotes to subcontractors have a very short "lifespan" and are increased frequently.
- **Tile & Stone** – From a long-term perspective, the availability of natural stone is getting scarcer as locations are depleted, which drives up prices for specific types of stone. This has been noticeable in the last year and is gaining traction due to environmental awareness and impacts. Turkey is a major exporter of natural stone and the recent earthquake will severely impact their ability to export due to the amount of stone required for their own re-building in coming months.
- **Hardware** – Some reports warn specialty door hardware costs could increase dramatically. While this might not have a huge impact, it can be detrimental on project budgets where large quantities are required.



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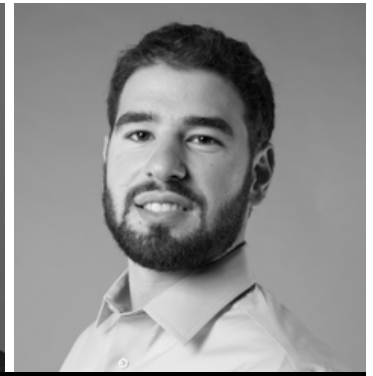
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