



MARKET OUTLOOK: OCTOBER 2021

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The trends we're seeing have a common theme—every project in every sector is feeling the supply and cost problems in our economy. To guide our project partners, we've outlined Consigli's perspective on material cost and delay risks based on current and future global and domestic conditions, along with strategies for mitigating these risks.

CURRENT TRENDS

- ▶ **Product Availability** - Plant shutdowns caused by winter freezes and hurricanes are still affecting domestic chemical plant output of PVCs, resins, adhesives, and other raw materials used for producing many construction materials. Reliance on overseas supply from Asia has become common place. The increased volume has congested seaports on the west coast causing extreme back-ups. Supply chain delays are making it difficult to acquire materials.

Although we're seeing delays, cargo lane disruptions are reported to have peaked in September and are slowly clearing. We anticipate a steady improvement of material availability starting in 2022.

- ▶ **Pricing Challenges** - Lack of supply and high demand for labor, shipping containers, and ground transportation, is also influencing prices. Many manufacturers are not quoting prices at time of order or only holding quoted prices for a week or less. Several manufacturers are taking orders but charging prices in affect when products are delivered.

With a strong pipeline of work keeping demand for materials high, we do not expect dramatic drops in pricing. We do anticipate material flow improvements and domestic manufacturing plant upgrades contributing to higher domestic production, stabilizing pricing in 2022.

12% Escalation
year to date

3% Additional Escalation
through December 2021



Expected Labor Shortage
increasing in second half of 2022

MATERIAL LEAD TIMES

Material	9/1/2021 (weeks for fabrication after release)
Steel Joist	40
Steel Deck	26
M/E/P Equipment	24
Roofing Insulation	24
Lab Casework	20
Mineral / Rock Wool	20
Aluminum	12
Glass	10
Roofing membranes	8
Structural Steel	8
Light Gauge Metal Framing	4
PVC Conduit	4
Shaft Wall Liner / Moisture Resistant Board	4-6
Gypsum Wall Board	3
Intumescent Paint	TBD

Significant delays

MATERIAL COST INCREASES

Critical Material	Expected Escalation (10/1/21 - 12/31/21)	Expected Escalation 2022 (Q1 & Q2)
Roofing Insulation*	20%	5%
Roofing Membranes*	20%	3-5%
Gypsum Wall Board*	15%	5-10%
Light Gauge Metal Framing	10%	5-10%
Glass	12%	0-3%
Aluminum	8%	0-3%
M/E/P Equipment*	5%	0-5%
Structural Steel	5%	0-3%
Plastics	5%	0-3%
Copper Wiring/Cabling	5%	0-3%
Structural Lumber	-2%	- 5-7%

Large manufacturers are not willing to take the risk of price escalation & are refusing to hold prices. As a result, subcontractors are being charged market increases at the time of delivery.

ITEMS TO WATCH

- ▶ **Field Labor (Vaccination Mandates):** Coupled with an already strained labor market, President Biden's recent vaccination mandates will make it increasingly challenging for subcontractors to supply trade labor on projects with vaccination requirements. We've received feedback from subcontractors (in the New England area) stating that approximately 60-70% of field labor is currently vaccinated.
- ▶ **Field Labor (Infrastructure Bill):** The incoming \$1 trillion, bipartisan infrastructure plan, with over \$500 billion slated for construction related projects, will place additional burden on the labor workforce. Something to keep an eye on for late 2022 and into the future.
- ▶ **Production of Specialty Products:** Manufacturers of many materials such as drywall, acoustical ceilings, and M/E/P equipment are using plant capacity to produce more commonly used materials, limiting (and sometimes discontinuing), specialty product lines.
- ▶ **Burn-off of Existing Inventory Keeping Prices High:** With steel mill capacity increasing, prices are expected to level off soon, but only after higher-priced inventories are cleared.
- ▶ **Quality:** Equipment manufacturers are sourcing parts from alternate vendors due to supply issues. Component substitutions sourced from alternate manufacturers (such as fan motors), are resulting in compatibility and quality issues within the units. Field repairs have been required to rectify during start-up and testing.
- ▶ **Roofing Materials:** The National Roofing Contractors Association is cautioning that product shortages for roofing materials and roof insulation will continue through 2022 due to the raw materials supply issue. Lead times for roofing insulation is now at 24 weeks after order.

STRATEGIES FOR RISK MANAGEMENT

LOCK IN PRICE ESCALATION. Lock in subcontractors that are willing to commit to future price escalation and take on material escalation risk. Follow up by expediting contract distribution and execution.

LEVERAGE BUYING POWER. Bulk purchase and package projects whenever possible to avoid costly piece-meal cost premiums and material delays.

SOURCE ALTERNATE SUPPLIERS. Collaboratively work with design partners to broaden range of suitable manufacturers and products to insure on time deliveries.

IMPLEMENT STRINGENT QA/QC PROTOCOLS. Some manufacturers are struggling to acquire components for their products, calling for substitute materials and alternate component manufacturers. This has resulted in field repairs of faulty equipment during start-up and testing.

MATERIAL DELIVERY VERIFICATION. Focus on weekly material verification utilizing technology and plant visits to ensure quality and schedule certainty.

PRE-PURCHASE & STORE MATERIALS. Pre-purchase long lead materials such as M/E/P equipment, steel joist, steel decking, and equipment and consider early delivery and more on-site storage.

IDENTIFY PEAK MANPOWER. Define requirements with subcontractors and receive firm commitments to staff projects.

UTILIZE PRE-FABRICATION. Identify opportunities to maximize pre-fabrication strategies to take labor off-site and lock in resources and materials earlier in the project.

PARTNER THROUGH DESIGN-ASSIST. Consider using design-assist trades to secure labor, materials, and a collaborative partner to work through current market risks early in the process.

THOUGHTFUL PRE-QUALIFICATION. Increase diligence in assessment of backlog, resources, and capacity, as well as buying power.

ELIMINATE LOWER TIER RISK WHEN POSSIBLE. Consider using vertically integrated subcontractors that buy raw materials direct and fabricate in-house. Hire trade partners that control material flow to avoid potential price escalation risk due to delay in hiring lower tier subs (e.g. HVAC subcontractors that broker work).