

Navigating Supply Chain Disruptions and Instability in Materials Pricing

STAFF-AUTHOR - MARCH 2, 2023

If there’s anything 2022 has shown us, it is that uncertainty continues to prevail and is becoming the norm. Materials and commodity prices spiked in 2022 and remain in flux due to ongoing supply chain disruptions, material input cost increases, and higher inflation. Pricing for rebar, sheet metal, lumber, and electrical equipment was heavily impacted with steep increases in the second quarter of 2022. Although pricing is leveling off, supply and delivery lead times for these materials and others is a challenge even as we begin 2023. For example, according to the Clayco Cost Index (CCI), past lead times for standard HVAC units was six to eight weeks. The CCI now tracks current lead times for small, standard HVAC units at 32 weeks and as high as 80 weeks for large HVAC units, such as Desiccant Dryers.

The 4th quarter of 2022 brought some improvement in material availability. Roof insulation and roof membrane availability continues to improve. Chemical factories are continuing to rebuild inventories improving availability of PVC, epoxy, flooring, and paint. Commodity future pricing is robust, bringing price stability to the market. Switchgear and electrical components are the most problematic material with lingering availability and long lead times as much as 72 weeks. The good news is metal pricing has dropped along with improved lead times. Except for electrical products with electrical components, 2023 should see continued market stabilization and improved product availability.

Although we will see improvement in material pricing and availability, we are still not back to the typical lead times and pricing as benchmarked prior to 2020. So how does a general contractor mitigate this risk for clients? Clayco advises clients on multiple strategies we can use to mitigate the risk for them and for our subcontractors. The Clayco team recently broke ground on a mixed-use project in Culver City. We proactively employed the following strategies to successfully navigate price, material, and lead time disruptions.

USE QUARTERLY COST INDEX TO INFORM SUPPLIERS

At the beginning of 2022, the cost of lumber had nearly tripled from the year before. Prices have come down over the last year but continues to fluctuate. The mixed-use project would use a significant amount of lumber.

The anticipated price moment and escalation would have to be carefully vetted. Clayco advised the owner regarding reasonable escalation for the project based on the Clayco Cost Index. In turn, Clayco took this information to the lumber supplier to negotiate pricing based on future trends tied to the cost index. Taking a data-driven approach to negotiate the pricing benefited the project and provided the supplier with source data to help them make an informed price decision.

LEVERAGE PURCHASING POWER

The Clayco family of companies includes a wholly owned purchasing subsidiary called Consolidated Distribution Company (CDC). CDC’s buying power allows them to leverage better lead times and pricing with material manufacturers. In fact, CDC is the largest buyer of Sherwin Williams paint and #1 Hunter Douglas dealer in the country. Con- solidated Distribution Company is assisting on the mixed-use project as a backcheck to solve procurement challenges, assist with obtaining materials faster, and to independently validate materials procurement lead times prior to sub- contractor engagement. This creates a bench- mark for comparison once the subcontractors came on board for preconstruction services.

EARLY MATERIALS ORDERS

During the course of business, subcontractors will typically order the materials they need in advance to meet an installation deadline. Due to the unpredictable nature of the fluctua- tions, Clayco required that the subcontractors advise the project team of materials that will require an early deposit and/or release for fabri- cation. This approach gave Clayco the oppor- tunity to advise the client on what materials should be ordered early to mitigate escalation costs and maintain tighter cost control over the project.

Although we may never see pre-pandemic materials pricing moving forward, we can employ strategies that help us manage the fluctuations and provide options for our clients to successfully navigate the future toward successful completion of their projects.

The Clayco Cost Index, referenced in this article, is a quarterly publication. The publication is a compilation of suppliers and nationally published commodity indexes. The material cost consists of the following: 3000 psi Concrete, Rebar, Wide Flange Steel, 1/2” Drywall, Copper, Hot Milled Sheet Steel, Lumber, Crude Oil and Hot Liquid Asphalt.



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