

Save the Date!

Upcoming Meetings

February 9, 2022

Lien Law-Collection Practices

March 9, 2022

Construction Legislation Landscape

April 13, 2022

Safety

May 11, 2022

Accounting Seminar

Upcoming Scholarship Opportunities

Interested in getting more involved?

Join our Scholarship Committee!

Email the Scholarship Committee Chairperson - David Helson with
Preston Pipelines at dheslop@prestonpipelines.com

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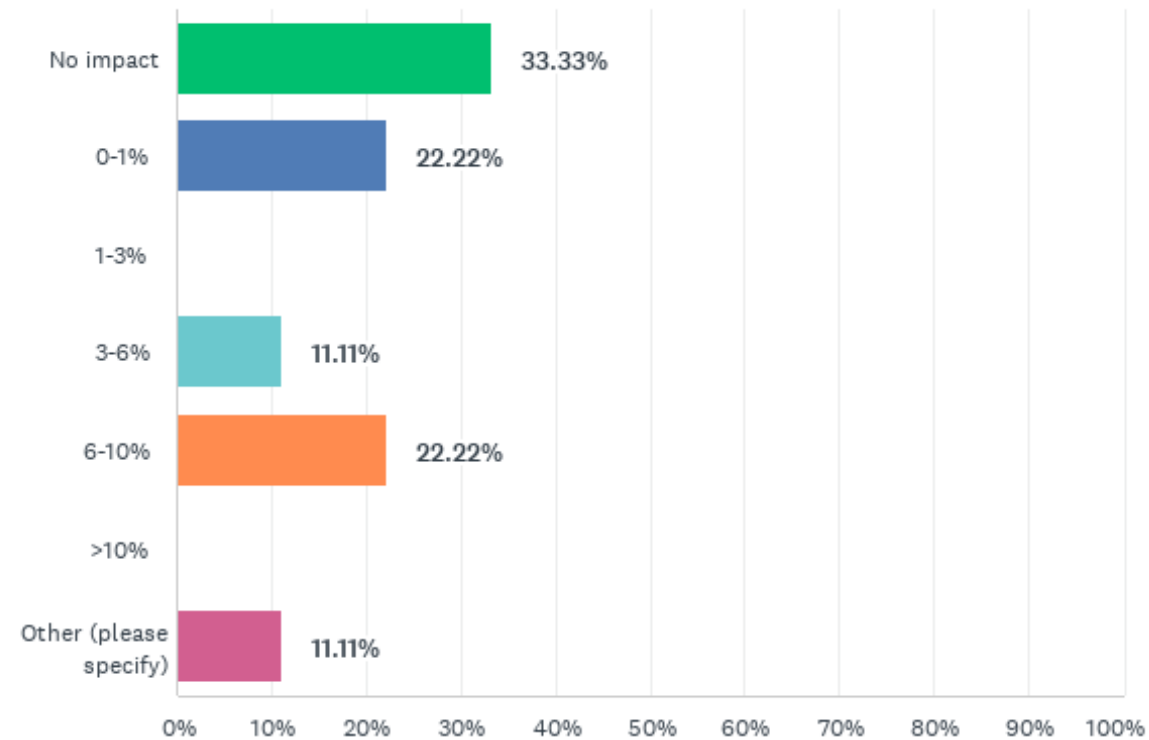


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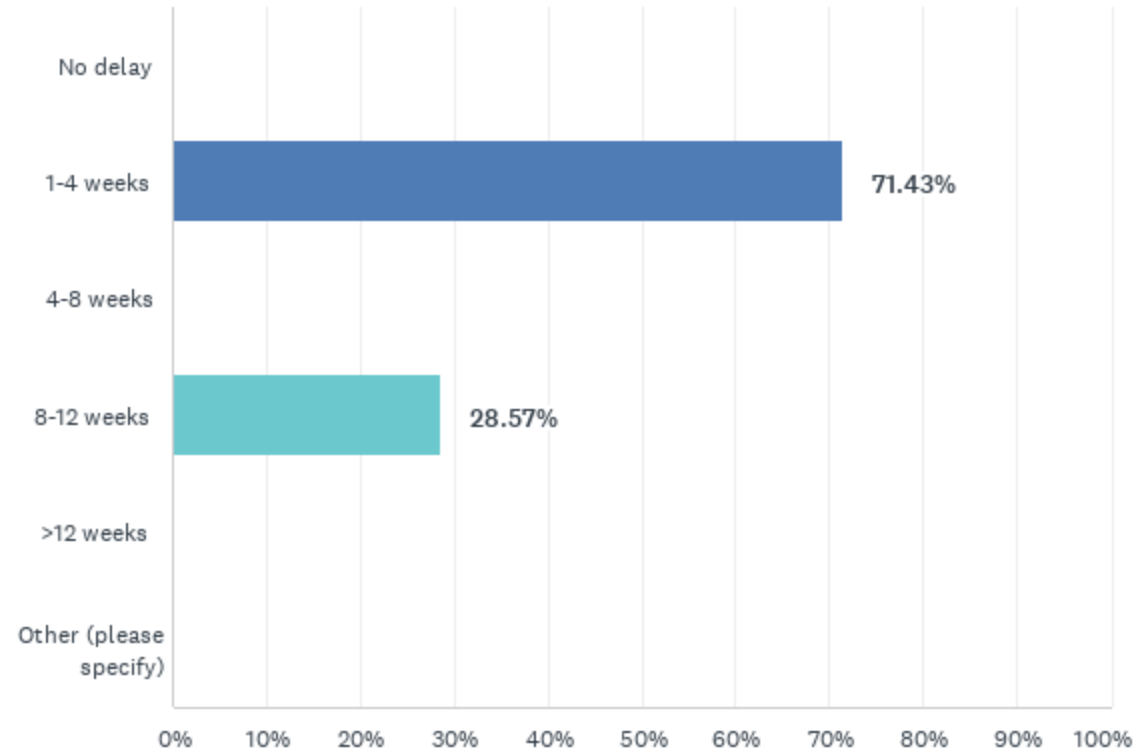
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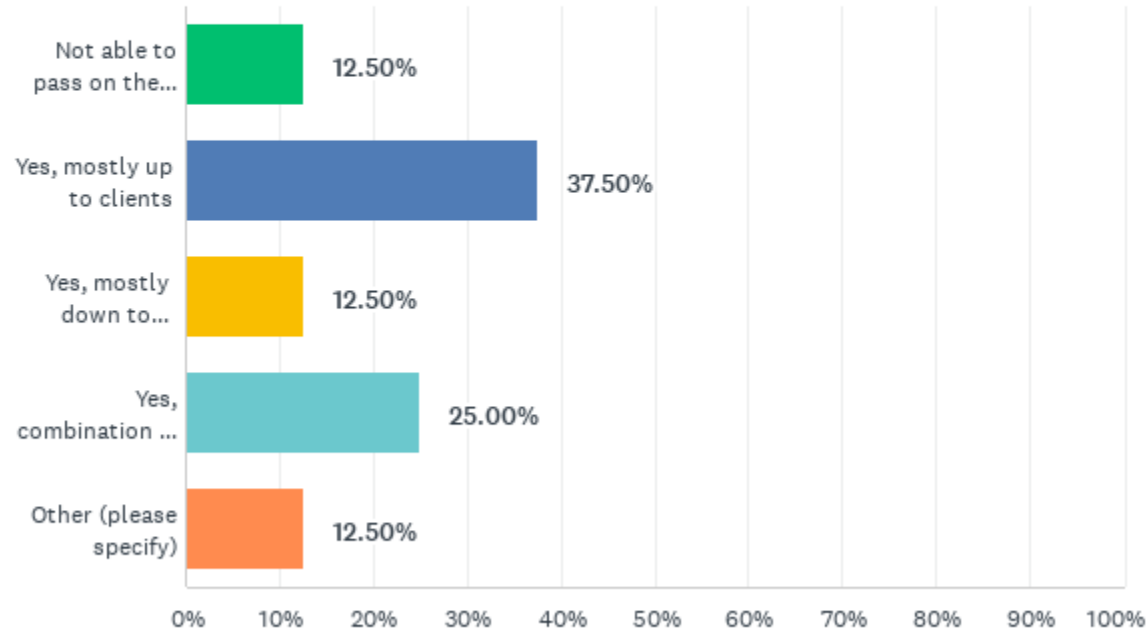
Q1 How have the supply chain issues impacted your margins?



Q2 Has the supply chain issues created a delay in your projects?



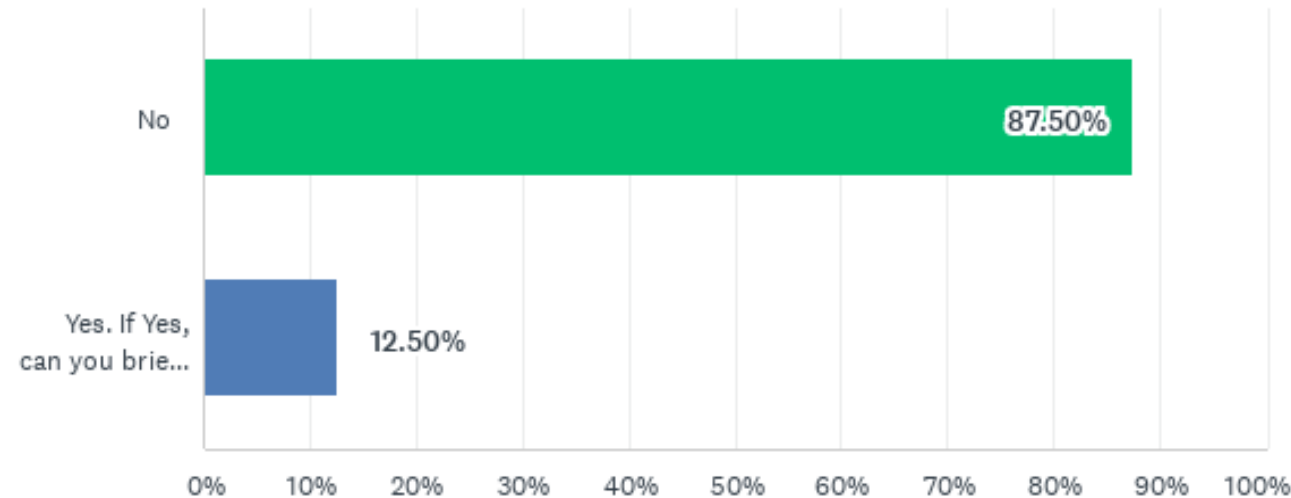
Q3 Are you able to pass on any supply chain issues up to your clients or down the supply chain?



Other (please specify):

- We are notifying our clients and pushing out projects, but not charging additional costs to GC's or to our clients

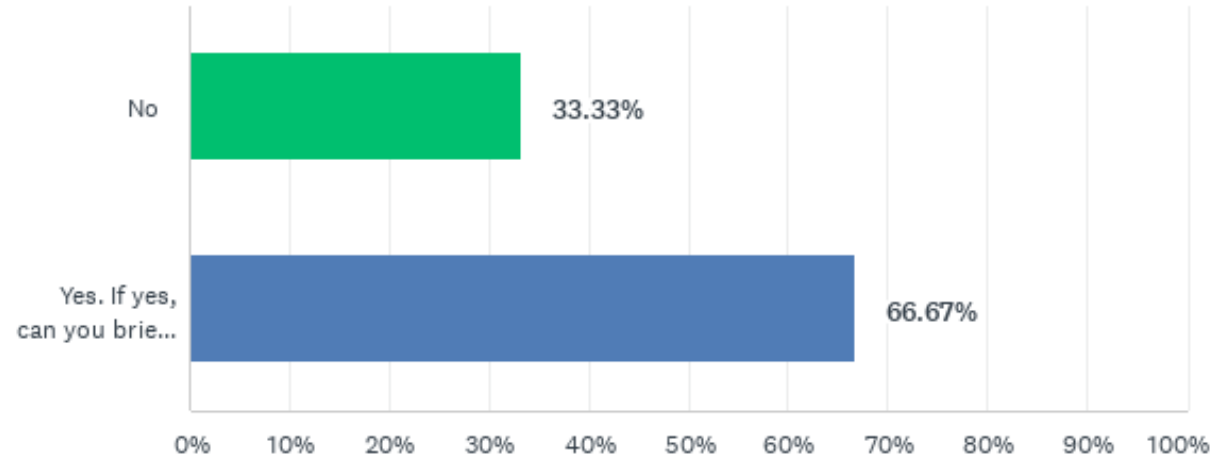
Q4 Have you changed the language in your contracts because of the supply chain issues?



If Yes, can you briefly describe how?:

- We have tried to include qualifications that exclude supply chain or unforeseen pricing increases needed to maintain delivery of specified products

Q5 Have you changed your bid strategy or bid costs due to the supply chain issues?



How? Responses:

- Greater contingency.
- Moving bid dates up in order to lock in materials early to avoid escalation and ensure that the materials will arrive onsite on time.
- When possible we will hold an allowance on at-risk trades
- Better qualifying our bids.
- Increasing the lead time to capture supplier and trade partners' capacity
- Increased bid prices based on quotes from material distributors.

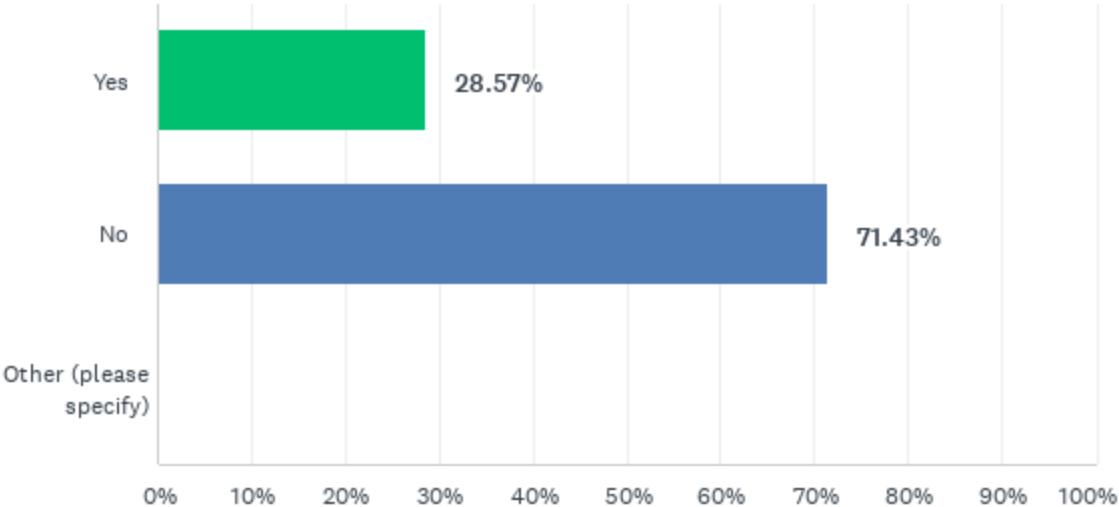
Q6 What products have caused the most lead time issues with your projects?

#	RESPONSES
1	Metal, Board & Lumber.
2	HVAC Equipment, light fixtures, lab casework, steel products
3	Water pipe, concrete
4	Mechanical Equipment and casework
5	Casework, mechanical and plumbing infrastructure units, doors, frames, and hardware are inching up for lead times as well.

Q7 What products have seen the largest cost increases with your projects?

#	RESPONSES
1	Metal, Board & Lumber.
2	Steel, HVAC, Plumbing, Electrical
3	Metals - Steel, Metal Decking and Metal Studs
4	Mechanical equipment and stud framing and AV equipment
5	Mechanical units, casework, doors, frames, and hardware

Q8 Have you seen any lead time relief recently on products that had lead times get pushed out?



A blue-tinted photograph of a construction site. In the foreground, a worker wearing a white hard hat with a headlamp and a high-visibility safety vest is pointing with a white marker at a wall. In the background, several other workers in hard hats are visible, and a sign with the word "BLACK" is partially seen.

Construction Cost Inflation

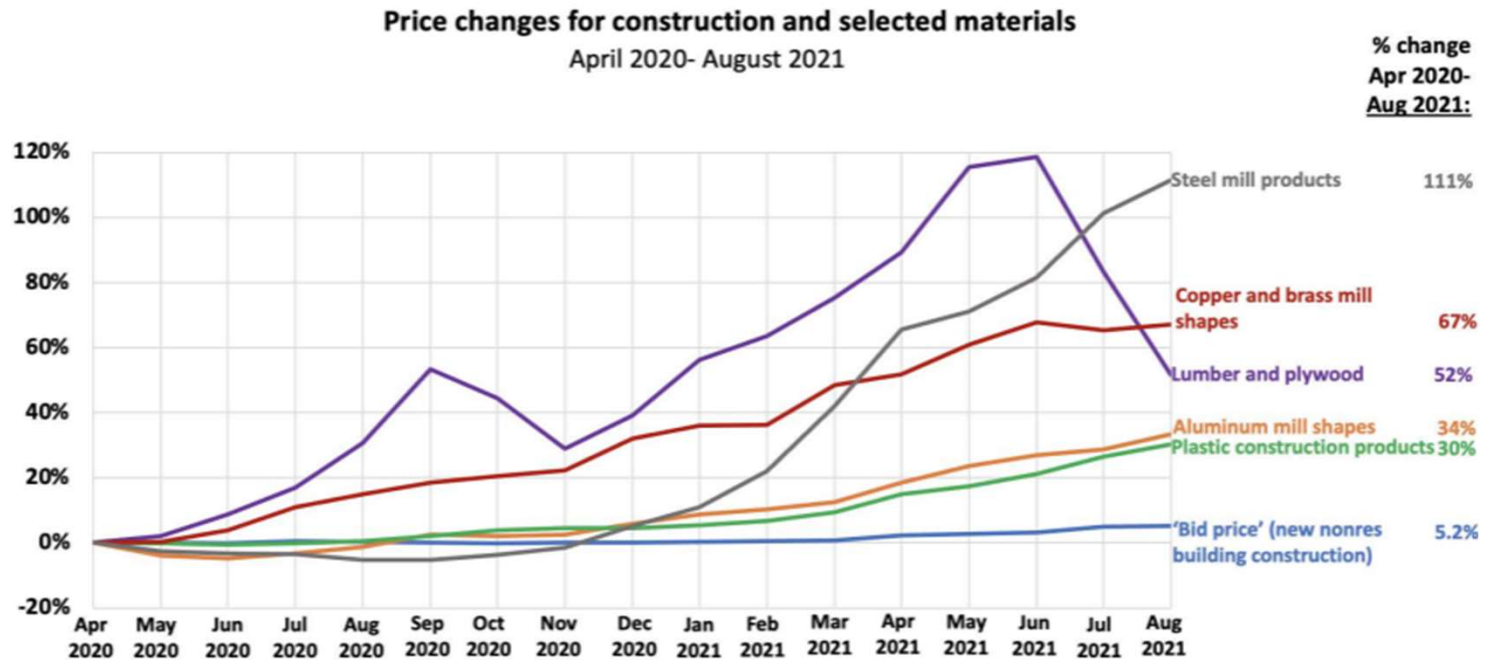
How did we get here?

March 2020 when the Shelter in Place Orders Hit

- Initial cost outlook was favorable
 - Wild swings in trade contractor pricing
 - Were told to expect drastic pricing increases and material shortages . . .
- It didn't become a reality until March 2021**



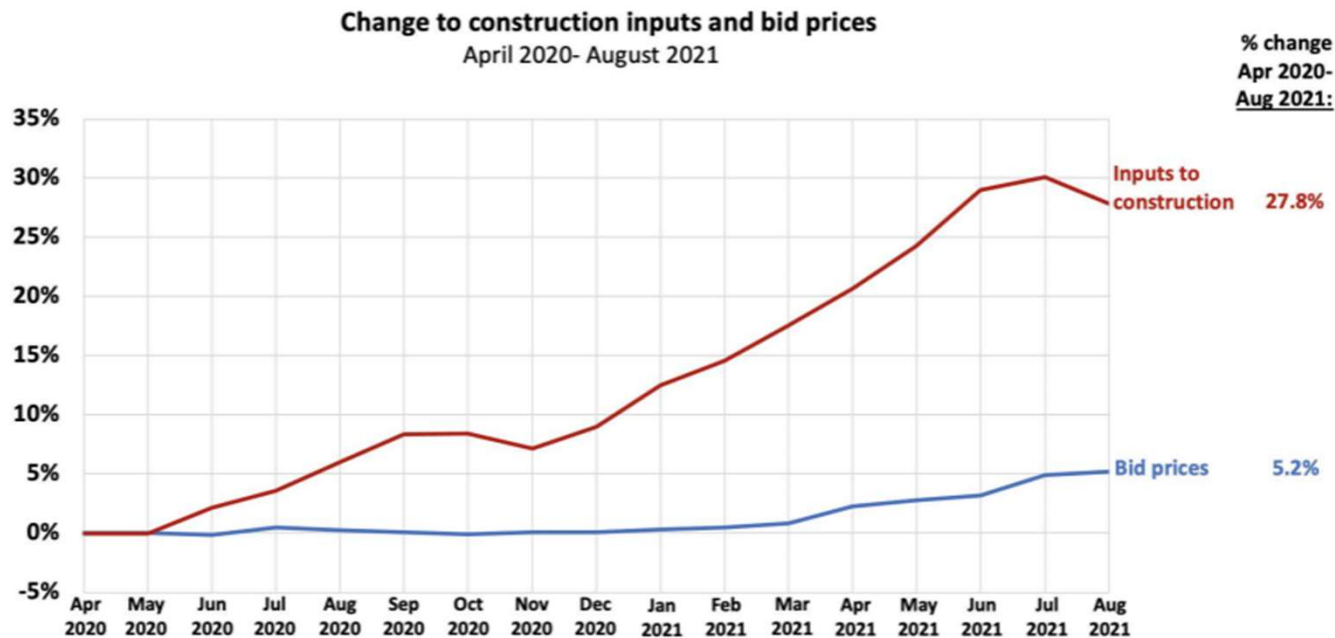
Material Increases



Source: Bureau of Labor Statistics, producer price indexes (PPIs) for new nonresidential building construction (bid prices), gypsum products, wood, metal products, and plastic products, not seasonally adjusted

Historic Inflation of Construction Costs

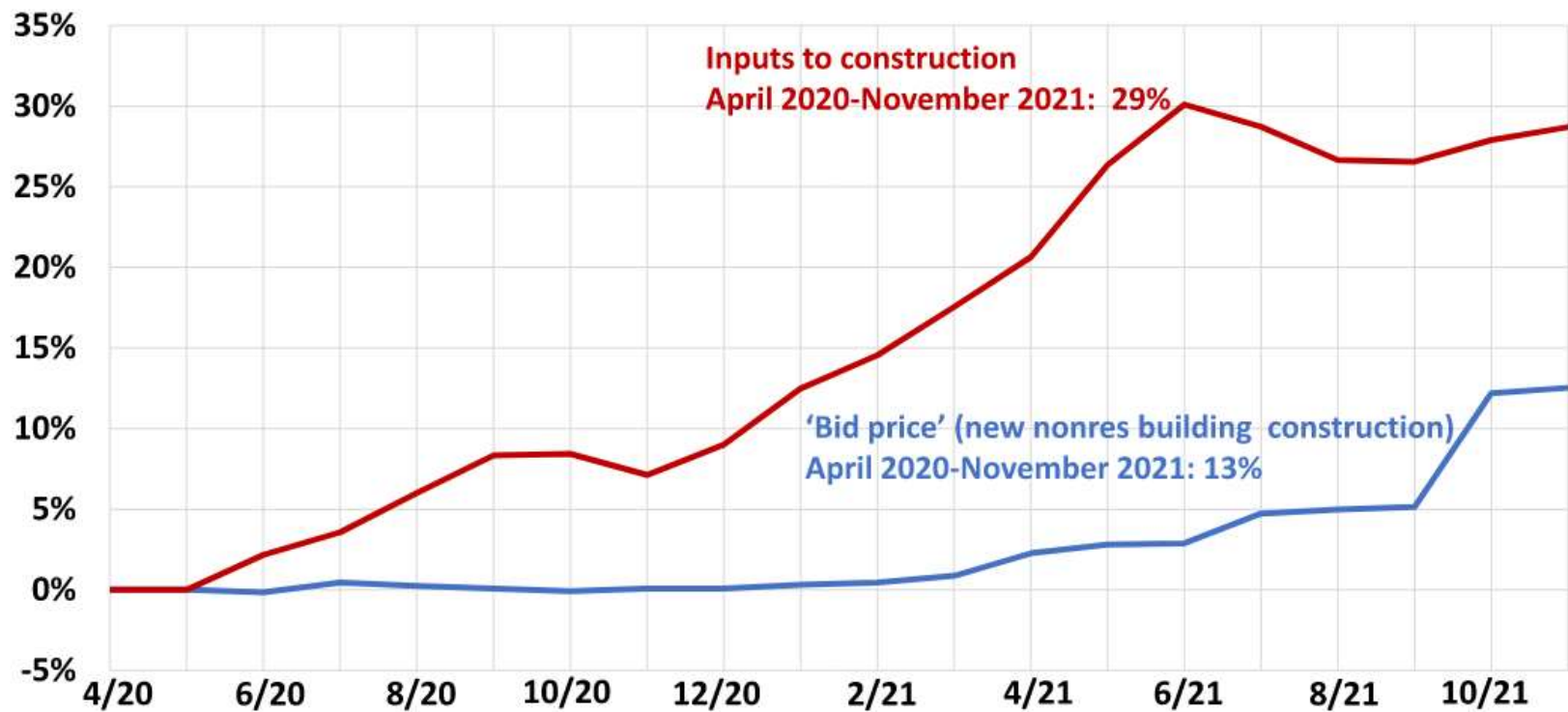
Cost of materials up 27.8% from April 2020 to August 2021, Bid prices up 5.2%



Source: Bureau of Labor Statistics, producer price indexes (PPIs) for new nonresidential building construction (bid prices) and inputs to construction, not seasonally adjusted

Bid Prices Starting to Adjust

Bid prices rose 7.8% in 4 months





Leading Indicators

- Shutdown in Manufacturing
- Natural Disasters
- Supply Chain Issues
- Increased Demand
- Transportation Shortages

Shutdown in Manufacturing

Mills & Fabrication Facilities Initially Deemed not 'essential'

- Projects shutdown, orders cancelled.
- Once reopened, struggled to get to full capacity.
- Boom of home construction projects & temporary facilities to accommodate outdoor dining.

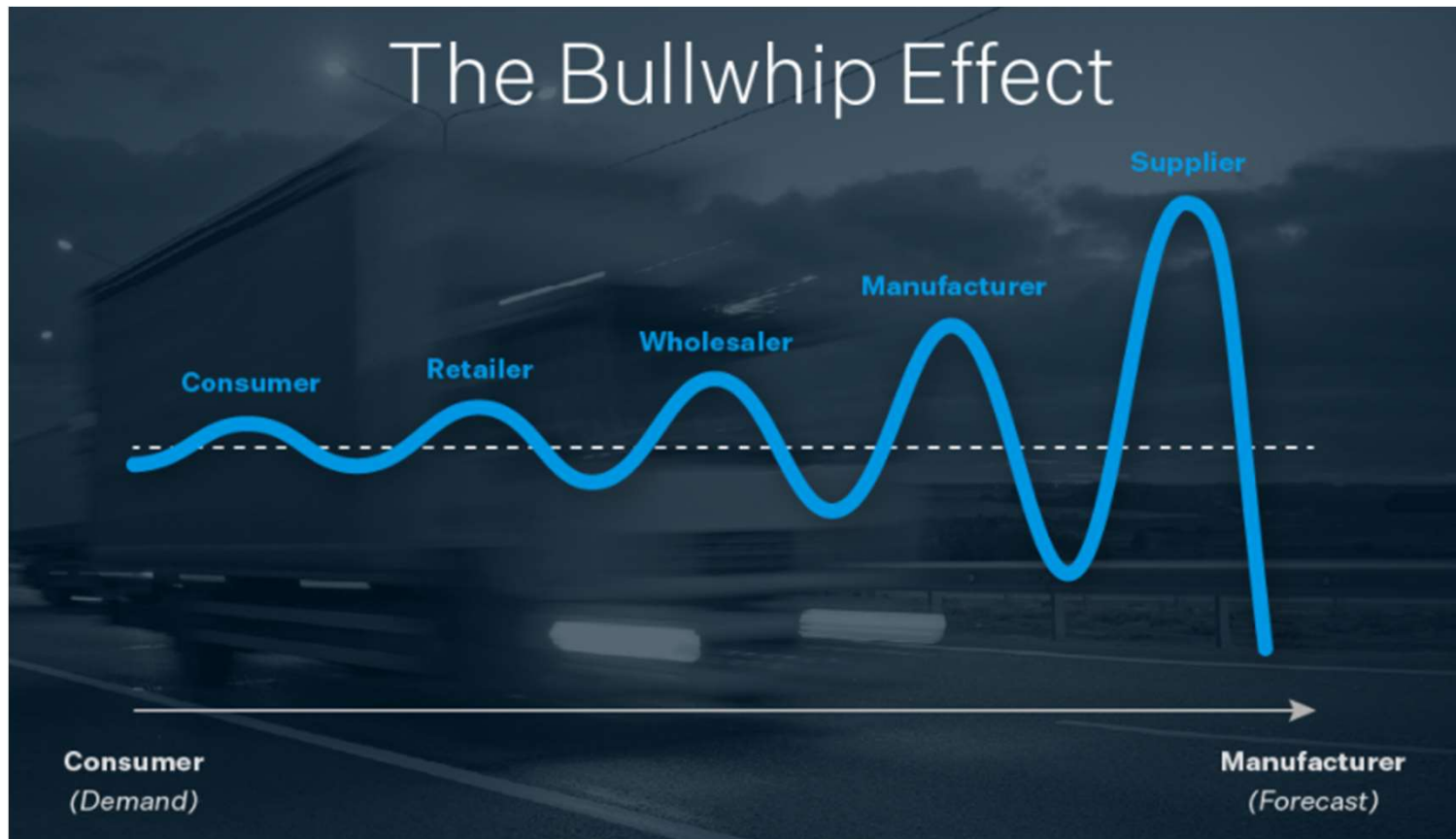
Natural Disaster – Texas Freeze



- February 2021, Texas freeze was unanticipated.
- Affected materials: PVC, fiberglass pipe, plumbing fixtures, vinyl siding, moisture barriers, paints, coatings, geotextiles, roofing, insulation, adhesives for engineered wood products.

Supply Chain Issues

Demand fluctuation by consumers, longer lead times in transportation, supply disruptions



Consumer Demand

- Demand has been unpredictable.
- Delays at every stage of the supply chain.
- Reliant on cheaper overseas manufacturing and long-distance transportation.

Supply chains need to be both informed and agile in order to forecast and deliver goods at the correct frequency.



Transportation Shortages

- Diesel fuel price jumped 41% from 9/20 to 9/21
- Truck transportation of freight increased 15% from 6/20 to 6/21
- Shortage of trucks and drivers
- Truck driver wages increased over 100%
- International Delays
 - Shortage of shipping/cargo containers.
 - What used to take 1 – 2 days to unload is now taking 20+ days.

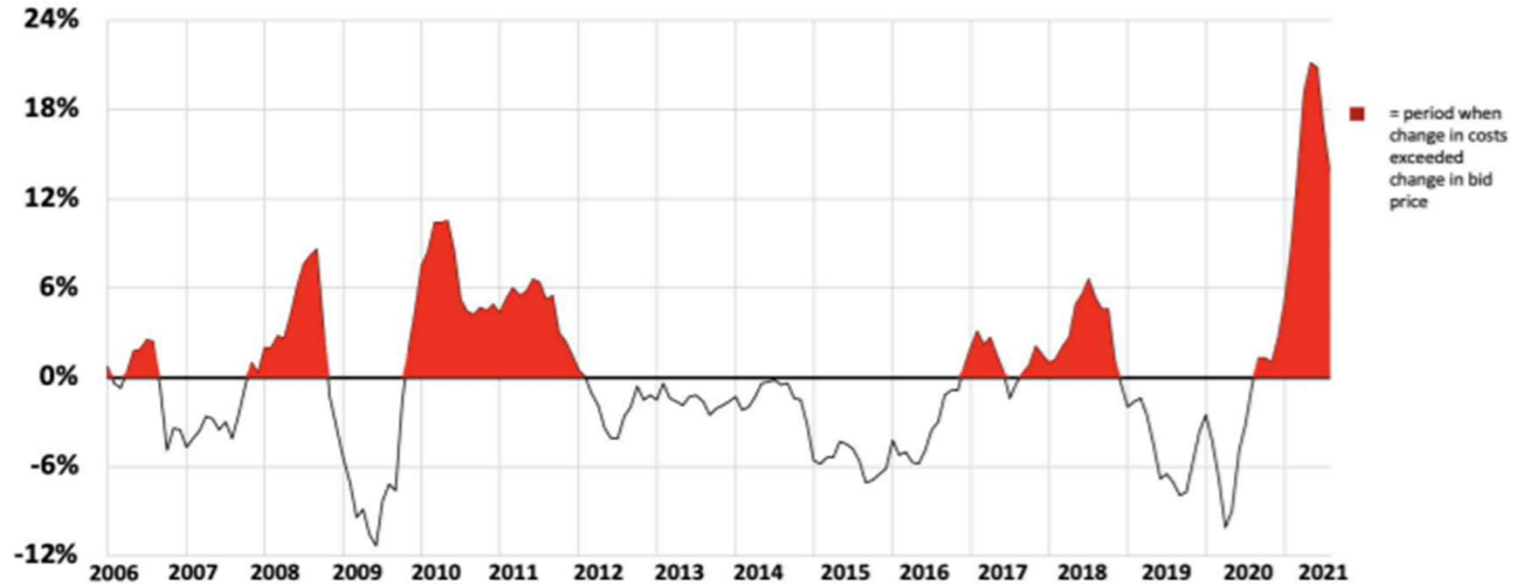


Looking Back

Historically takes the market up to 28 months to regulate

Cost squeeze on contractors can last two years or more

Difference between year-over-year change in materials costs vs. bid prices, Jan 2006-August 2021



Source: Bureau of Labor Statistics, www.bls.gov/ppi, producer price indexes for goods inputs to nonresidential construction (material costs) and new warehouse construction (bid prices)

Market Outlook

- **Until this pandemic is over, we will continue to experience volatility in the commodities market**
- **Omicron variant causing disruption, amplifying supply chain issues**
- **Subcontractors still hungry for backlog work**

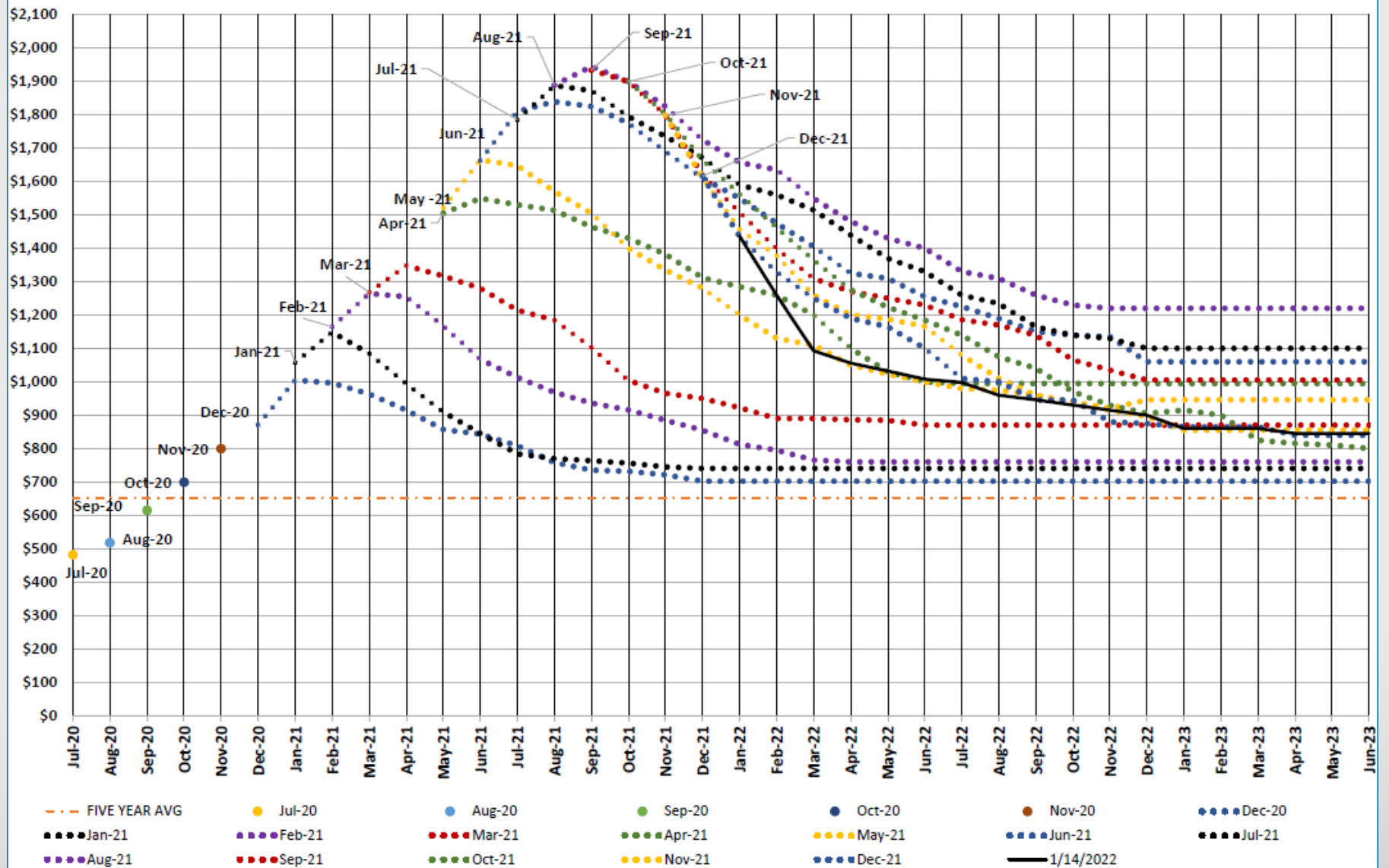
What does this mean the construction industry

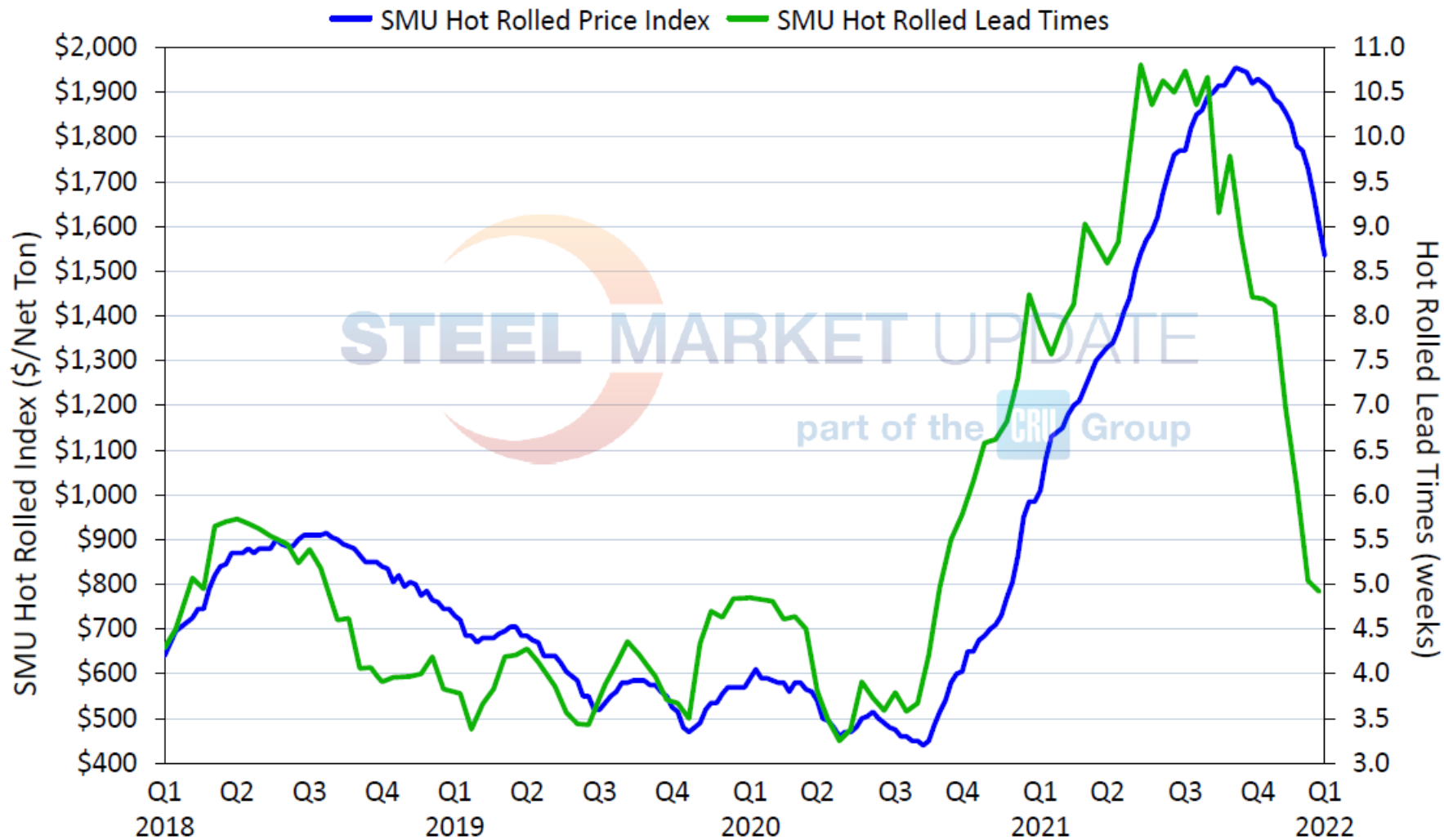


- Some owners are looking to delay projects.
- Contractors should be looking for solutions to mitigate the added cost.
- Proactive communication and collaboration with Clients is critical to successful outcomes.

Steel Market Supply Chain Update

Hot Roll Coil Futures Curve



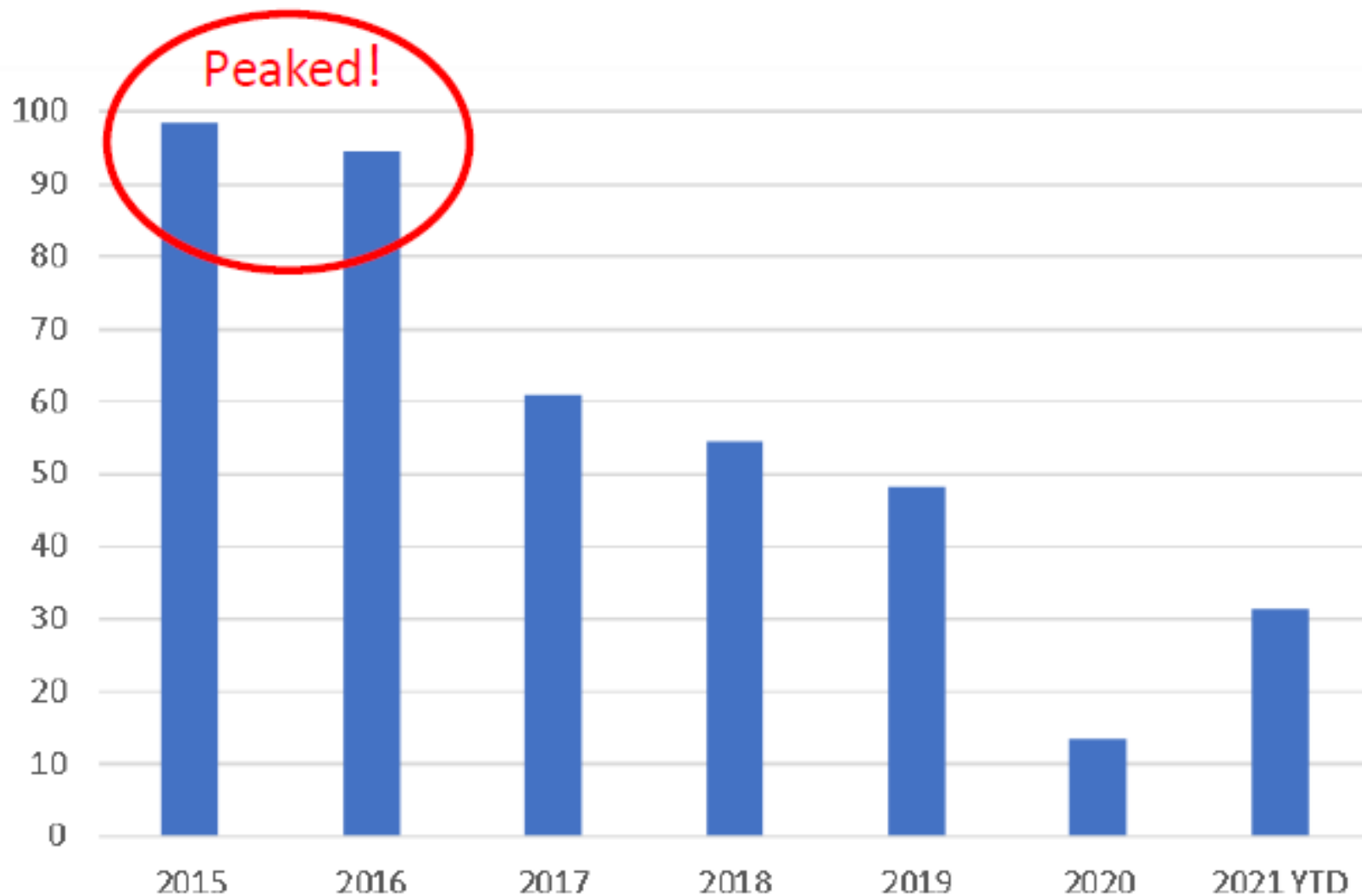


© Steel Market Update 2022

Domestic Steel Production

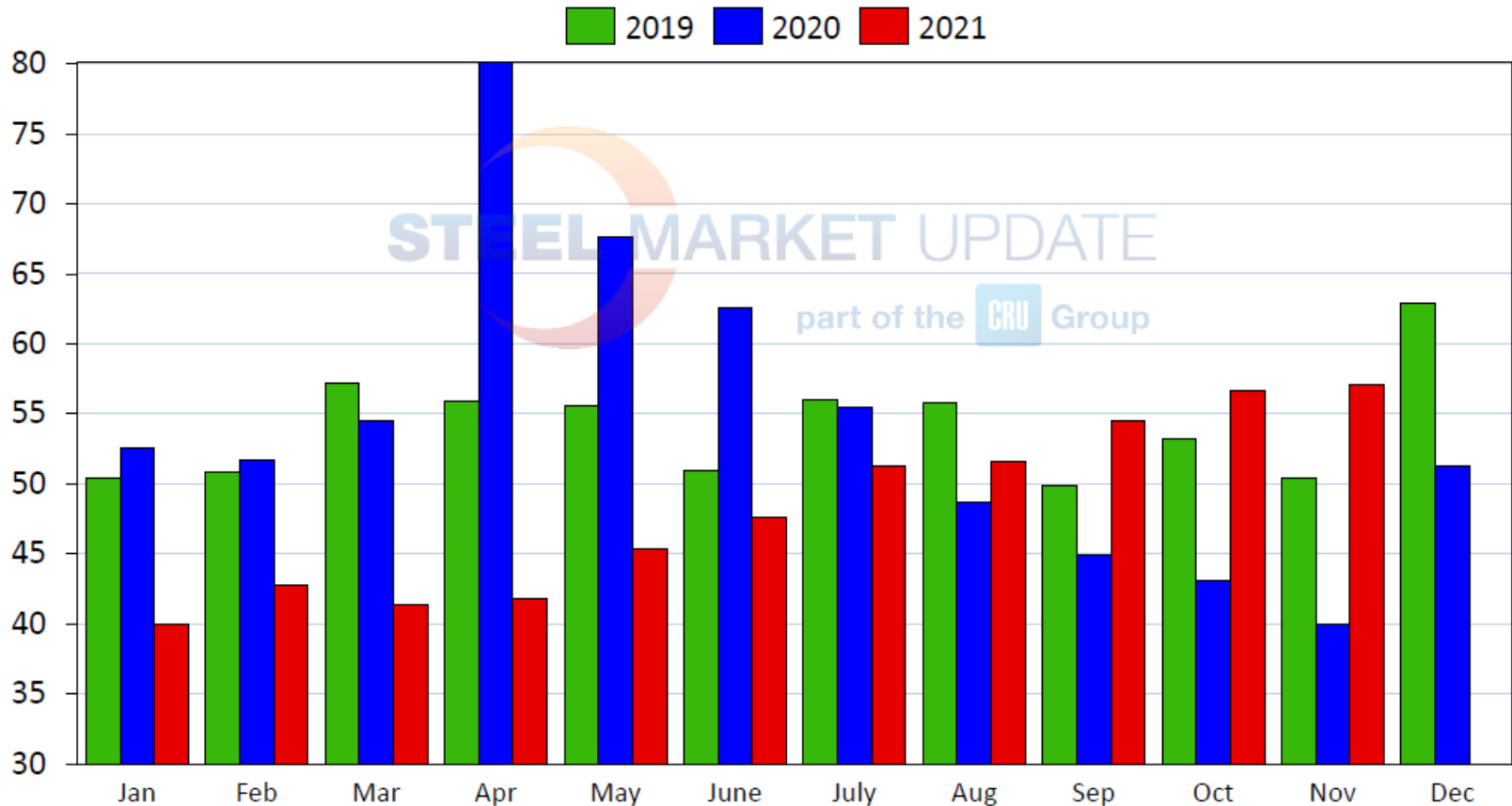


Annual net Chinese exports (Mt)

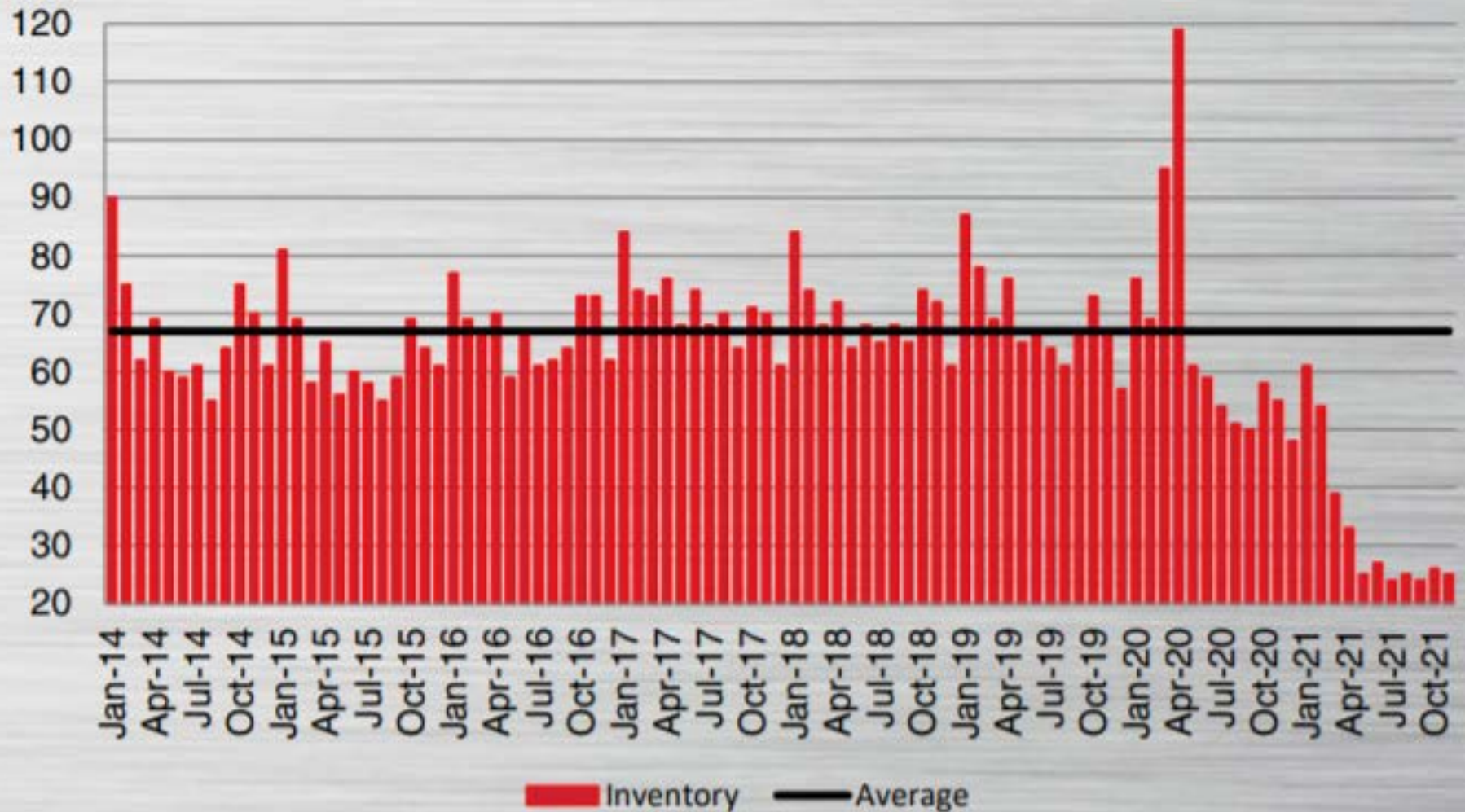


Service Center Inventories

Shipping Days of Supply – Flat Rolled



U.S. LIGHT VEHICLE DAYS OF SUPPLY



In Conclusion

- There are many factors that go into steel pricing and availability and the factors discussed contributed to a steel shortage in 2021.
- The 2021 steel shortage was the longest I have seen in the 10 years I have been at SCAFCO and CWalla.
- Hopefully we are able to get back to “normal” in 2022

However

- An infrastructure bill, if passed, will generate a lot of steel demand in 2023 and beyond.

