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April 14, 2021

AGC WebEd

Soaring Material and Supply-Chain Costs and Delays: What to Expect, How to Cope

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AGC March 2021 Survey Highlights

[Survey](#) conducted Feb. 19–March 4; 1,489 responses

(Note: All percentages are % of respondents, not % of projects, dollars, etc.)



Scheduled project was **postponed or canceled**: 77% of respondents

ppd indefinitely or canceled in '20: 40%; ppd/canceled in Jan.-June '21: 17%

Won additional project or add-on to project in past 2 months: 21%

Time until volume of business matches/exceeds year-ago level:

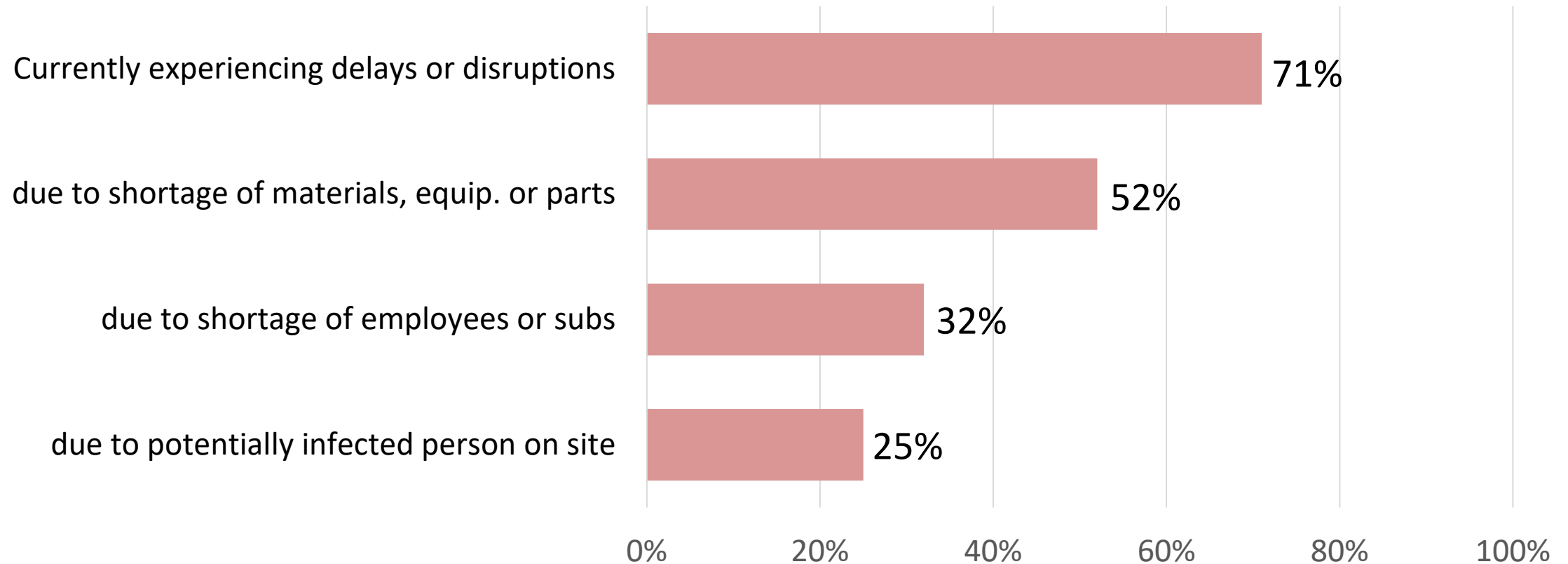
already there: 32%

1-6 months: 13%

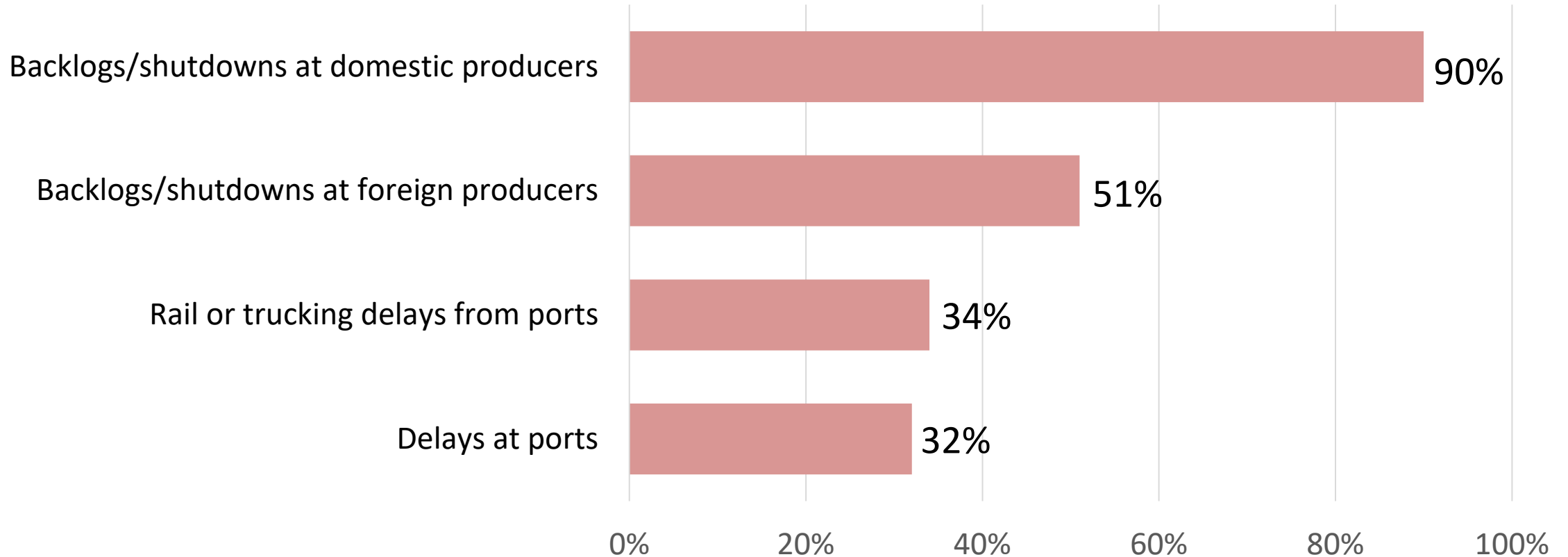
will take more than 6 months: 34%

don't know: 22%

AGC Survey: Firms cite pandemic impact as cause for higher cost and delays



AGC Survey: Firms cite multiple reasons for delays

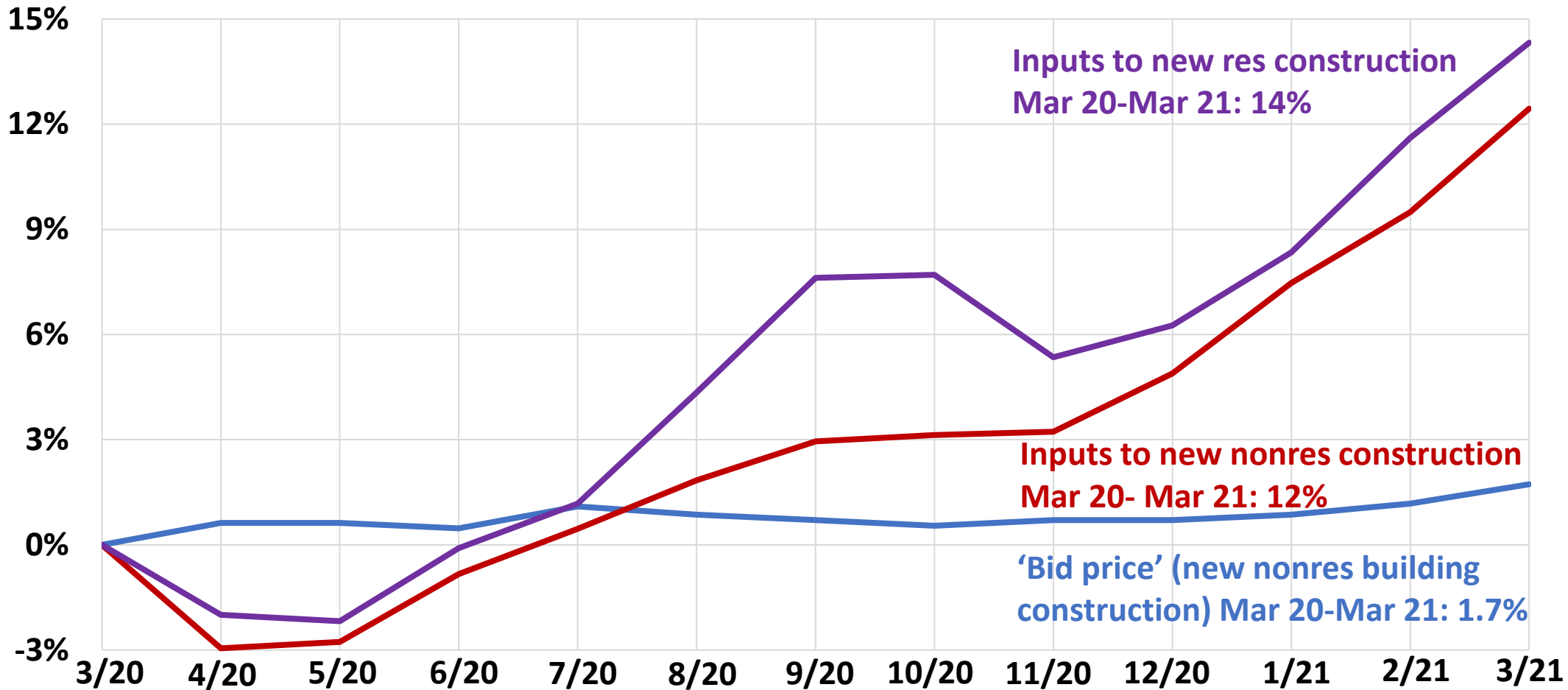


Construction input and 'bid price' producer price indexes (PPIs)

cumulative change in PPIs, Mar 2020 - Mar 2021 (not seasonally adjusted)

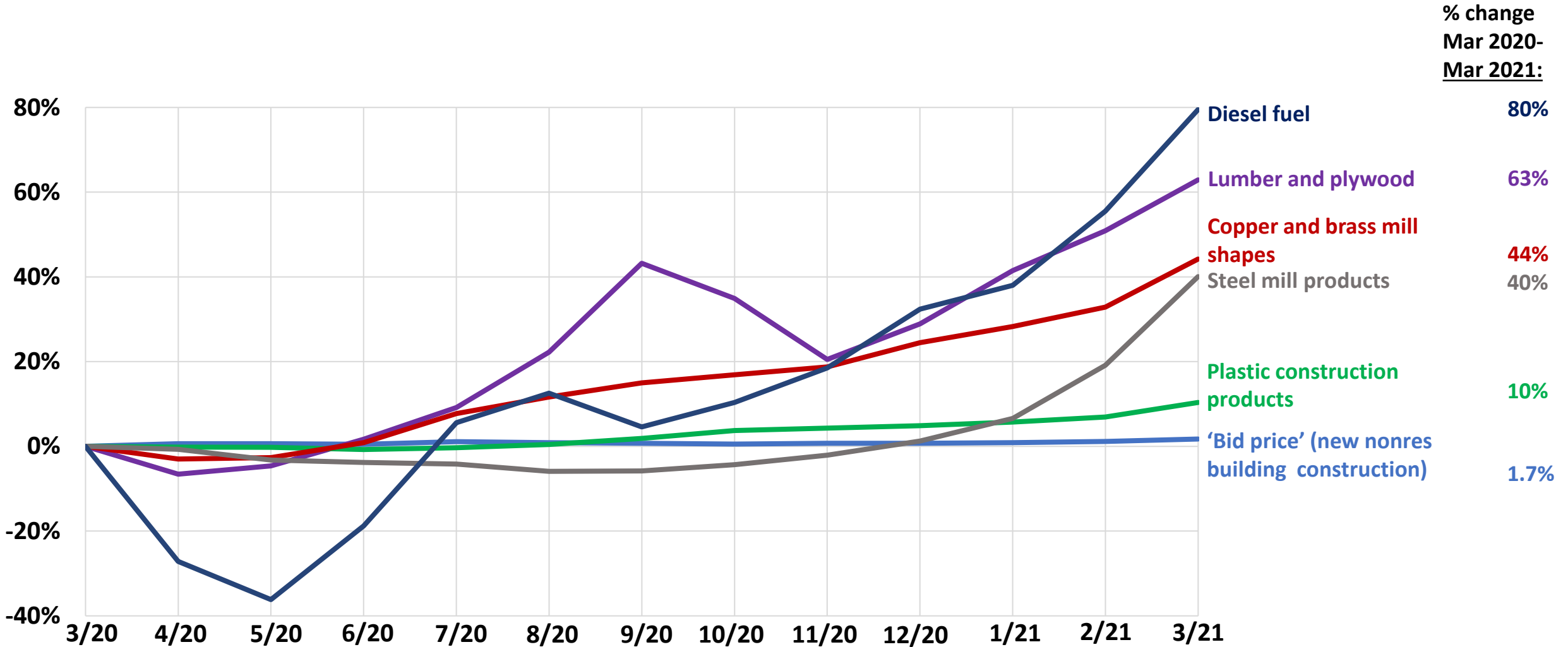


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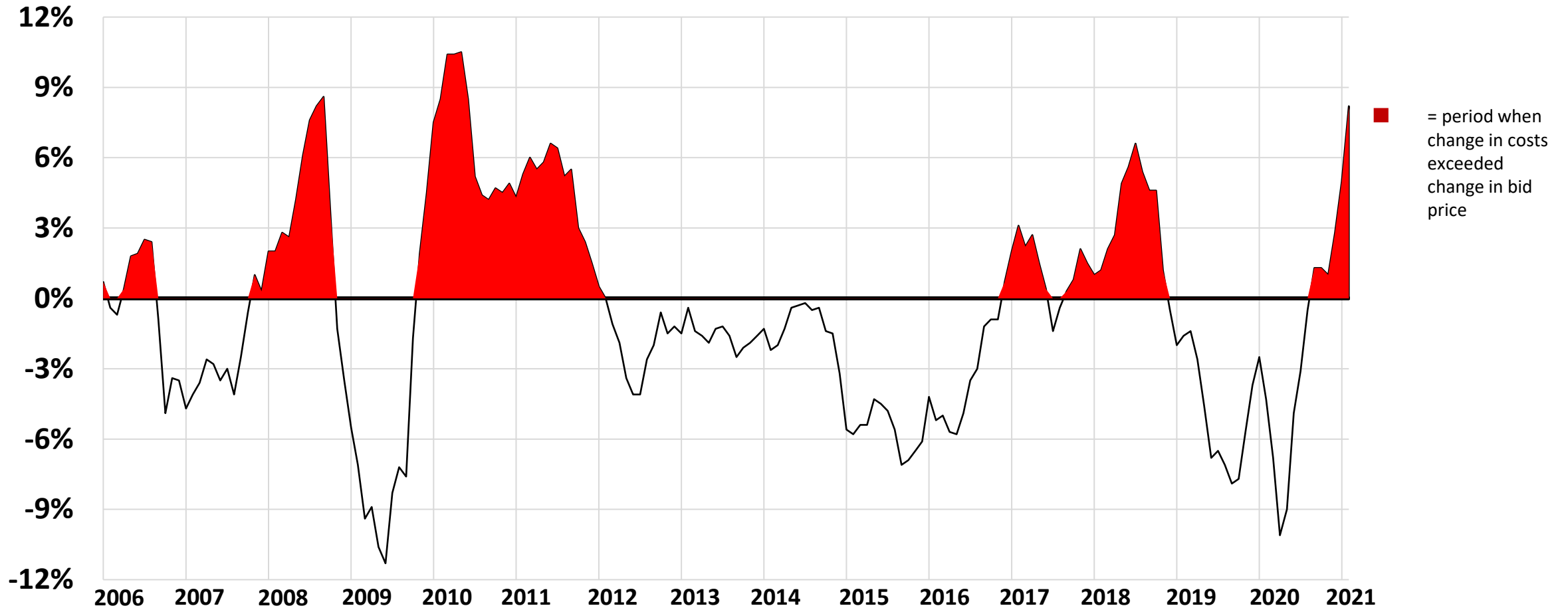
PPIs for construction and selected inputs

cumulative change in PPIs, Mar 2020 – Mar 2021 (not seasonally adjusted)



Cost squeeze on contractors can last two years or more

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



AGC's responses to material cost and supply-chain issues



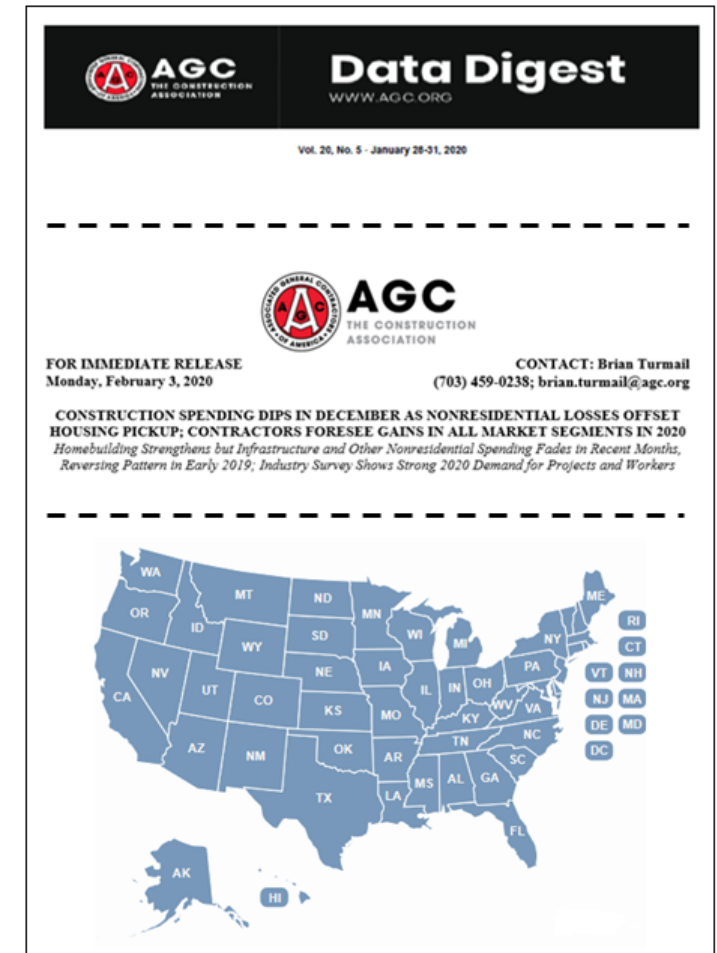
- *Construction Inflation Alert*:
<https://www.agc.org/sites/default/files/AGC%202021%20Inflation%20Alert%20-%20Ver1.1.pdf>
- Weekly updates in the *Data DIGest*: 1-page email (subscribe at <http://store.agc.org>)
- Presentations to government contracting officials and owner groups
- Participating in coalitions lobbying for tariff relief on lumber, steel, aluminum and products
- Directly lobbying White House officials for relief on lumber

AGC economic resources

(email ken.simonson@agc.org)



- *The Data DIgest*: weekly 1-page email (subscribe at <http://store.agc.org>)
- *Construction Inflation Alert*:
<https://www.agc.org/sites/default/files/AGC%202021%20Inflation%20Alert%20-%20Ver1.1.pdf>
- March 2021 *Survey*: <https://www.agc.org/news/2021/03/11/latest-coronavirus-survey-results>
- Other surveys, state and metro data, fact sheets: www.agc.org/learn/construction-data
- Monthly press releases: construction spending; national, state, metro employment with rankings





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Dan Schnippert
Procurement Director
Marek



Increases and Uncertainty



- Price Increases
- Extended Lead Times
- Supply Constraints

Price Increases



- Raw material shortages, delivery delays, and factory shutdowns
- Gypsum 20-30%
- Steel >40%
- Insulation >10%

Material Availability



- Extended lead times
 - Gypsum-from several days to 3 weeks or more
 - Steel-from 1 week to 4 or even 6 weeks
 - Insulation-from 1-2 weeks to 3 months
- Allocation
 - In place for insulation
 - Other products?

Navigating the market



- Transparency and communication
 - Pre-bid
 - Open discussion of potential escalations pre-bid
 - Clear communication of timeline for acceptance
 - Understanding the impacts of adjusting the bid timeline
 - On the job
 - Being proactive
 - Upstream communication
 - Team mentality



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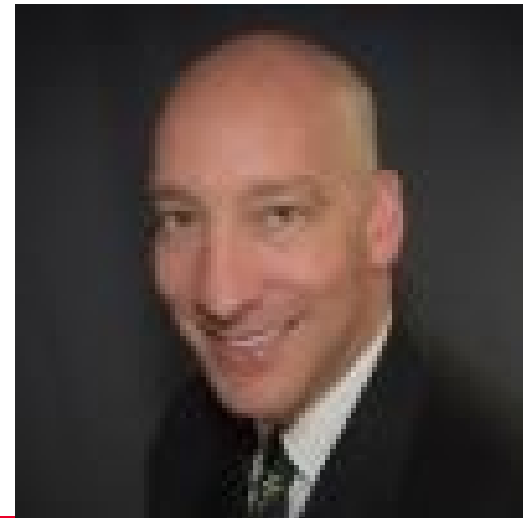
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Pardon My French: Force Majeure



- Means Superior Force
- Performance becomes impossible or impractical
- Unforeseeable
- Neither party controls
- Are your price escalations a force majeure event?

Are Soaring Prices and Supply Shortage a Force Majeure Event?



- A) I cannot possibly break even on this project because prices have spiked more than a covid-19 spiked protein

- B) I cannot locate timber from my normal dealer located in Colorado

- C) I cannot get my supply on time from any local dealer

Price Escalation Clauses ConsensusDocs Can Help



- ConsensusDocs 200.1 Potential Time Price-Impacted Materials Amendment
Free sample here, <https://www.consensusdocs.org/contract/200-1/>
Guidebook <https://www.consensusdocs.org/guidebook/>
- Only industry standard contract document that addresses the issue
- Prices can go UP or Down – so fair to owners
- Based on an objective index agreed to upfront
- Can set limits and floors to adjustment.



ConsensusDocs®
BUILDING A BETTER WAY



Other Contractual Approaches to Risk Mitigation for Price Escalation



- Shorten time period your bid is valid for explicitly or better yet condition your bid.
- Request a change order, if appropriate.

Free sample <https://www.consensusdocs.org/contract/202-2/>

Change of Law, see ConsensusDocs 200 section 3.21.2

- Cost of the Work Agreement with a GMP(ConsensusDocs 500) or IPD (ConsensusDocs 300)
- Consider breaking projects into phases
- Early procurement of materials and then store them
- Contingency Clauses

Define w/ clarity what contingency can be used for and what it cannot
Owners may be motivated to sign the agreement now rather than later.

Contractual Flow Down

- Don't get stuck in the middle: you can't give a subcontractor or supplier contractual terms better than what's in the prime agreement
- Pass along fair terms to Subs/Suppliers, otherwise, why should Owner give GCs a fair contract and not get much of the benefit?
- Limit a Sub/Suppliers' rights to those you have upstream for material price increases
- If your price increases are capped, then you should cap a Sub/Suppliers' increase.

Contract
Risk
Flowdown





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Questions?

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