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

Source: AGC March 2021 coronavirus survey, conducted Feb. 19-Mar. 4, 2021; 1,489 total respondents
AGC Survey: Firms cite multiple reasons for delays

- Backlogs/shutdowns at domestic producers: 90%
- Backlogs/shutdowns at foreign producers: 51%
- Rail or trucking delays from ports: 34%
- Delays at ports: 32%

Source: AGC March 2021 coronavirus survey, conducted Feb. 19-Mar. 4, 2021; 1,489 total respondents
Construction input and ‘bid price’ producer price indexes (PPIs)
cumulative change in PPIs, Mar 2020 - Mar 2021 (not seasonally adjusted)

Inputs to new res construction
Mar 20-Mar 21: 14%

Inputs to new nonres construction
Mar 20- Mar 21: 12%

‘Bid price’ (new nonres building construction) Mar 20-Mar 21: 1.7%
PPIs for construction and selected inputs

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

% change  
Mar 2020-Mar 2021:

- Diesel fuel 80%
- Lumber and plywood 63%
- Plastic construction products 44%
- Copper and brass mill shapes 40%
- Steel mill products 10%
- ‘Bid price’ (new nonres building construction) 1.7%

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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

Source: Bureau of Labor Statistics, producer price indexes for goods inputs to nonresidential construction (material costs) and new warehouse construction (bid prices)
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](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](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](http://store.agc.org))

• *Construction Inflation Alert*: [https://www.agc.org/sites/default/files/AGC%202021%20Inflation%20Alert%20-%20Ver1.1.pdf](https://www.agc.org/sites/default/files/AGC%202021%20Inflation%20Alert%20-%20Ver1.1.pdf)


• Other surveys, state and metro data, fact sheets: [www.agc.org/learn/construction-data](http://www.agc.org/learn/construction-data)

• Monthly press releases: construction spending; national, state, metro employment with rankings

Source: Author
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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%
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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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/](https://www.consensusdocs.org/contract/200-1/)
  Guidebook [https://www.consensusdocs.org/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.
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.


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 my 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.
Questions?

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