

# **Health Commission Meeting**

**6/15/2021**

## **2016 Public Health And Safety Program**

**Reference Document**

# Construction Cost Impacts

## MATERIAL SUPPLY AND PRICING

The U.S. economy is anticipated to see a strong recovery later in 2021 as the pandemic recedes, which will influence market prices. While there is currently no sign that this will produce inflation, if there is any increase it will be relatively short-lived, according to the Federal Reserve. Following a spike to 2.4% this year, officials project price pressures to slow to 2% in 2022. That said, the construction industry, and specifically the industry in the San Francisco Bay Area, continues to experience rising prices, short-term supply issues, and extended lead times.

### PRIMARY CAUSES

The primary underlying causes of these issues include:

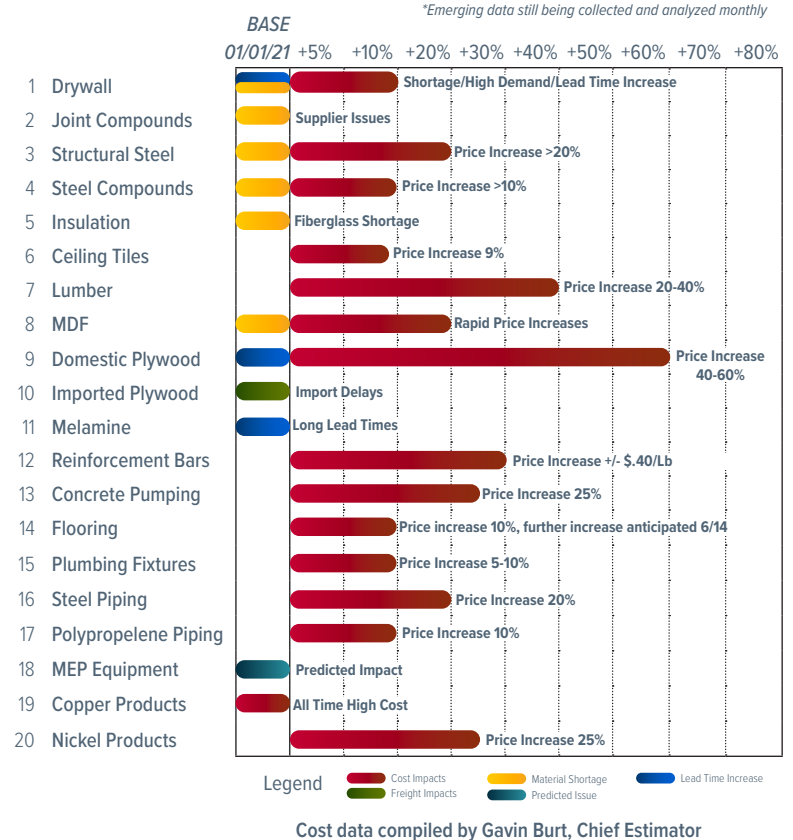
- **Labor disruptions** – due to COVID-19 cases and imposed safety protocols.
- **Capacity limitations** – adjustments made prior to or during COVID-19 that have not been fully restored.
- **Raw material shortages** – shortage of one ingredient can stop or limit production.
- **Transportation issues** – demand for container shipping and trucking have outstripped supply.
- **Production times** – just-in-time production has been severely impacted.
- **Energy disruptions** – weather-related power outages significantly interrupted the production and supply of many products.

### SUPPLY CHAIN IMPACTS (AS OF JUNE 2021\*)

Manufacturers report that widespread material and labor shortages persist. Material cost continue to rise at a record pace. The following summarizes the impact the above issues has had on specific key construction materials:

- **Drywall** – slowing production has substantially decreased the supply of synthetic gypsum. While a suitable replacement has been sourced it comes at large cost premium. Residential sector demand adds pressure.
- **Joint Compound** – the recent major Texas storms crippled the production of latex, a key ingredient in both paint and joint compound.
- **Steel** – steel availability is progressively getting worse and prices continue to escalate. The steel industry continues to face a worldwide shortage which has impacted steel coils and the related supply of steel studs (15% increase by 6/1), acoustical grid, and HVAC ductwork. These specific items may not be normalized by the end of the Q2, and availability and price are expected to be challenging.
- **Insulation** – there has been an ongoing shortage of fiberglass batts due to increasing residential demand outstripping supply.
- **Ceiling Tile** – has seen a 9% increase since beginning of year.
- **Lumber** – lumber has seen a 20% - 40% spike since January. Lumber prices continue to rise.
- **MDF** – the supply situation on MDF is now reaching a critical point. Mills have been asked to source alternate products, and prices continue to rise every week.
- **Domestic Plywood** – shipments and driver shortages are increasing lead times (now 4 – 6 weeks) and prices have

### CURRENT IMPACTS ON CONSTRUCTION MATERIALS



- increased between 40 - 60%. Imported plywood long lead times are extending.
- **Melamine** – prices and lead times have increased as this product is being used as a substitute for MDF.
- **Rebar** – rebar prices are still being driven by transportation and Mill backlogs. Wire Mesh rebar supply is critical.
- **Concrete pumping** – this year subcontracted equipment and pumping costs have increased by 25%.
- **Flooring** – the flooring industry has seen a 5 – 10% increase this year. An additional 10% increase is expected on Shaw products placed after 6/14.
- **Copper & Nickel** – raw material is now almost at an all-time high of \$4.11/lb (nickel increased 25%) which will affect all MEPF trades.
- **Plumbing Fixtures** – price increases effective February/March 2021 of between 2 - 15%.
- **Steel Pipe** – 20% price increase went into effect as of March 2021.
- **Large MEP Equipment** – transformers, switchgears, and air handling units that incorporate copper, steel and nickel in their production will see increases.

\*The % adjustments are calculated using a base date of January 2021.