

Industry Perspectives Op-Ed: Global supply chain disruption causing wild swings for construction

Patrick McManus June 9, 2021



A major disruption is occurring in the construction supply chain across all sectors and all geographic regions of the province.

Similar to most industries, the COVID-19 pandemic has caused major disruptions in the global supply chain for the construction industry; however, as the saying goes, “when it rains, it pours.”

Labour strife, logistics and microclimate impacts are all continuing to wreak havoc, creating a perfect storm that is resulting in wild swings in construction material prices and uncertain delivery times.

From a COVID-19 standpoint, the global manufacturing supply chain is being slowed.

In Canada, the National Association of Manufacturers conducted a survey of its member companies on current manufacturing impacts and found that over 53 per cent of members were experiencing operational disruptions.

Some major industrial companies have closed facilities and laid off employees to curb the spread of the virus.

And many other issues are being impacted.

The Seafarers Union, who represent cargo ship crews, are warning of a total shutdown of the Canadian Shipping Industry if a vaccine plan is not immediately developed, border crossings are significantly slowed, etc.

Outside of COVID, there are a host of additional issues, but the two primary drivers are a global shortage of resin used in the manufacturing process of many building materials, from plywood and laminated wood, to watermains and bonding adhesives; and an unprecedented increase in product demand as a result of multitrillion-dollar stimulus programs in the United States and East Asia.

Since Q2 of 2020, the price of commonly used building materials has reached historic levels.

For instance, steel prices have increased by 300 per cent, softwood lumber is up 150 per cent and copper has reached an all-time high in price.

These materials are sourced, designed and produced in other areas of the world as the global supply chain has become indispensable to the growth of the Ontario construction industry.

Buyers of construction in Ontario must be aware of how COVID-19 has impacted global supply chains and its impacts on the Ontario construction market.

While the price of building materials fluctuates constantly, the volatility has worsened substantially.

Factory closures, labour shortages and competing markets have made the normally smooth supply chain unpredictable.

These latest supply chain challenges are expected to last through most of the 2021 construction season as the global economy recovers from COVID-19.

Here in Ontario, we are continuing to face a housing supply crisis, strain on our critical core infrastructure, and an explosion in need for better broadband and transit infrastructure.

Now is certainly not the time to shy away from critical infrastructure projects; however, it is important to understand the impact that these logistical issues are having on your projects.

There are a number of things you can do to account for this:

Ensure your project budget and expectations are in alignment with the current materials costs before proceeding with project tendering.

Expedite project award timelines. A shorter bid approval timeline means prices from subcontractors and material suppliers can be locked in at the price included in the bid.

Put in place a material payment adjustment clause or common materials index to deal with the price fluctuations of certain materials (similar to the MTO Fuel Price Index).

Plan your projects with all parties in the subcontractor and material supply chain as early as possible. Order in advance and pay for materials on arrival.

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