Construction Cost Impacts

PROCUREMENT & DELIVERY

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XL CONSTRUCTION

While we are finally seeing positive signs of reopening after the prolonged shutdown of offices and construction sites due to COVID-19, we continue to feel the residual economic impacts in construction. The ceasing of production in key global markets such as China and the Mediterranean region in 2020 resulted in significant impacts to material availability. As we progress into 2021, we are now experiencing global restrictions on product shipments.

PROCUREMENT & DELIVERY IMPACTS

The COVID-19 pandemic has disrupted every part of the procurement process and will to continue to have a direct impact on construction projects for at least the next twelve months. These impacts are the direct result of the following:

KEY DRIVERS

Sluggish transportation ramp-up. During the production shutdown, freight companies decommissioned ships, freight containers and trucking as there was nothing to move and maintaining operational equipment, without the potential for utilization, was drastically affecting their ability to remain solvent. What we are now starting to experience is the consequences of those decisions. Production has ramped up, but transportation infrastructure is now under significant pressure to get logistics and distribution back online.

Products sitting in limbo. Off the coast of many major ports, including Los Angeles (the busiest port in the United States) and Oakland / San Francisco, dozens of container ships filled with construction materials and other highly sought-after goods have been idling for several weeks. In rural locations, U.S. farmers are struggling to ship product to global market. In China, product destined for North America piles up on factory floors.

Shipping container shortages. As construction projects start to ramp up again, we will see a surge of orders from factories in China, much of which needs to be carried across the Pacific in containers. However, the demand for shipping has outstripped the availability of containers in Asia. In addition, containers that moved essential medical supplies to remote locations during the pandemic have been abandoned as shipping companies return to moving product along more established trade routes.

Cargo handling delays. The pandemic and its restrictions have limited the availability of dockworkers and truck drivers, causing delays in handling cargo. As a result, ships arriving at U.S. ports of entry with construction materials are frequently held offshore unable to dock and offload. Every container that cannot be unloaded in one place is a container that cannot be loaded somewhere else, impacting every link in the supply chain. are stretched beyond capacity.

NET RESULTS

These disruptions to global trade are driving up the cost of shipping goods and adding a new dimension to economic recovery. Our local economy is now trying to absorb the ripple effects and as a result we are experiencing higher costs for construction materials. The chaos has forced buyers to pay record prices to secure space in whatever containers are available to move. This is predicted to remain an issue until early 2022.

Air freight is an alternative to secure more timely deliveries but comes at a premium. If you are shipping partial container loads that require consolidation with other customers expect even further extended delivery times.

RECOMMENDATIONS FOR PROJECT OWNERS AND STAKEHOLDERS

1. Review their current procurement plans with the general contractor, especially where they have critical deliveries for long lead and international components, to establish the impacts and develop mitigation plans to keep projects on track. Local installers may need to be realigned with extended delivery dates.
2. Advise general contractors to reach out to their trade partners and get updates on where they stand with delivery impacts and update project schedules accordingly.
3. Review projects currently in the bidding stage and where they have GMP's in development to assess the risks associated with protracted delivery and the reluctance of trade partners to hold pricing beyond 30 days. This has already been experienced with structural steel and metalwork bidders.
4. Revisit any risk registers / risk contingency provisions and update to account for emerging trends.
5. Review all active construction contracts to understand what constitutes compensable delays in this situation and prepare for any claims submitted by general contractors and trade partners.
6. Investigate road and rail transportation impacts as these will equally be affected in terms of US national distribution as well as imports from Canada and Mexico. Oil price increases will also likely affect gas pricing and delivery costs, as well as components with a high plastic content and roofing/asphalt products.

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