## CONSTRUCTION SUPPLY CHANNEL 01 UPDATE



# THE CURRENT SITUATION:

Supply issues impacting the market appear to be stabilising.

This Q1 research of suppliers to the construction industry shows a stabilising of pressures to supply seen over the last year. Whether that's a reflection of true easing of the situation, or simply suppliers getting used to the new normal is uncertain.

That said, suppliers are still under a lot of strain - freight issues continue to plague construction supply, and inflationary pressures are being felt across the board.

#### THE SURVEY

The data for this Q1 update was gathered in February 2022, with responses from managers of over 200 New Zealand product suppliers across all main product categories.

CATEGORY:		REVENUE:	
Structure	n=32	Under \$10m	n=4
Enclosure	n=72	\$10m-\$49.9m	n=
Interior	n=49	\$50m +	n=1
Finish	n=30	Not provided	n=8
External & Ot	her n=60		

LVENUL.		
Inder \$10m	n=43	
10m-\$49.9m	n=58	
50m +	n=16	
lot provided	n=84	

## THE CURRENT SITUATION

## IN FEBRUARY, WE SEE A PLATEAUING IN THE PROPORTION OF COMPANIES HAVING ISSUES SUPPLYING THE MARKET:



However, the picture varies by category. Products in the Finish category (e.g. tiles, carpet & paint) have seen an increase in the proportion experiencing issues supplying the market, while Enclosure drops to 72% having issues. It is worthwhile noting that businesses relying on domestic supply are equally likely to experience supply issues as those who rely on imported components or imported finished products. While freight is the largest impacting factor, domestic supply issues are a major contributing factor as well.



## FREIGHT IS STILL OUR LARGEST ISSUE, Though it may be easing slightly

The increased cost of freight is still the number one issue impacting ability to supply. However, the proportion impacted by delays at NZ ports has decreased significantly now that we are through the traditional Christmas rush. Expectations appear to have been reset as we get used to longer shipping times and delays at ports and plan around them.

The cost of materials from offshore is the number two factor impacting ability to supply. As we will see on the following page – while this might be a less widespread issue than shipping costs for suppliers, it is the number one factor driving inflationary pressure in businesses.

#### **EXPERIENCING FREIGHT ISSUES**



#### WHICH (IF ANY) OF THE FOLLOWING FACTORS ARE IMPACTING YOUR BUSINESS AND ABILITY TO SUPPLY RIGHT NOW (COMPARED TO NOVEMBER 2021)?





## 99% EXPERIENCING INFLATIONARY PRESSURES



While rising freight costs are the most widely experienced factor, we see that global freight costs and capacity are starting to stabilise.

By contrast, the factor having the most impact is rising material costs.

We didn't collect data to explain what's driving this, but key factors could include rising global labour costs for imports, the impact of Covid-19 driving up labour costs, and offshore inflationary pressures driving up the cost of imported raw materials and finished goods. We are starting to see some easing in the pressures businesses are facing. While increased cost of freight is still a major issue (impacting more suppliers this quarter), the decrease in delays at Auckland and Tauranga ports have made a positive impact. As of the end of February 2022, the estimated delay at Ports of Auckland was 6-10 days, and Tauranga one day.

However, even as things ease, there is support that businesses would like to see from NZ industry or government. We asked suppliers to comment in an open question on what initiatives they'd like to see reported. The most referenced initiatives were:

#### WANT THE BORDER OPENED TO WORKERS TO EASE STAFFING PRESSURES (27%)

"Allow more foreign workers into NZ. We are still heavily behind on labour resources in the New Zealand market."

#### WANT PORT INEFFICIENCIES TO BE RESOLVED (23%)

"Possibly building the Northern Port would help relieve congestion to speed up imports and remove congestion charges."

#### WANT SHIPPING ISSUES TO BE RESOLVED (21%)

"Get involved with shipping line freight to encourage them to reduce massive freight costs, which are leading to colossal profits made by those companies."

#### WANT FEWER COVID RESTRICTIONS APPLIED (10%)

*"Include importers of the building supply chain as critical workers. Otherwise there will container congestion at the wharfs and inability to take FCLs."* 

## PRICE PRESSURES CONTINUE TO BUILD AS INCREASES EXCEED THOSE FROM THE FIRST HALF OF 2021

#### LAST SIX MONTHS INCREASE

Almost two thirds (64%) of suppliers have experienced significant increases to the cost of their materials (buy costs) over the last six months. In contrast, only 35% of suppliers have seen a significant increase in the prices they sell at. Once again we see suppliers not passing on the full cost increase, though the gap has narrowed compared to July 2021.



#### COST YOU BUY IN AT







This is a significant increase over the previous six month period (February - July 2021), which had an average 15% increase cost of materials and a corresponding 11% increase in sell price to customers.

**IS THE AVERAGE INCREASE TO THE COST OF MATERIALS TO SUPPLIERS** (SUPPLIER BUY PRICE) % **IS THE AVERAGE INCREASE TO** CUSTOMERS (SUPPLIER SELL PRICE) The market seems to be more prepared for cost increases with the gap between increases to costs and sell prices closing over the

9%

last six months.

## PRICE PRESSURES DON'T APPEAR To be easing any time soon

#### **ANNUAL INCREASE**

Over the last 12 months, the cost of materials has increased 37% on average (buy cost) compared to 34% (sell price). If we look across the individual categories over the last year, we can see that there is a deficit of between 2% and 9% in the rise in buy-in costs vs. the rise in sell price. The last survey showed that 92% of suppliers don't feel fully confident they can pass on the full impact of cost increases. Without reducing costs elsewhere, this may not be a sustainable strategy in the long term.



## ANTICIPATED COST AND PRICE INCREASES FOR THE NEXT SIX MONTHS

Builders and quantity surveyors still need to factor in further increases to materials for the next 6 months.

On average prices are predicted to increase 11%, with the cost of materials (buy cost) averaging an increase of 11% – indicating suppliers believe the two will be more aligned going forward. Analysis of the last 12 months suggests in most cases the increase in sell price will still be impacted by previous buy cost increases yet to have been passed on. Therefore we should not be surprised if price increases continue for longer as suppliers play catch up, unless they can find further efficiencies in other parts of their business.







IS THE AVERAGE INCREASE TO THE COST OF MATERIALS TO SUPPLIERS (SUPPLIER BUY PRICE)



IS THE AVERAGE INCREASE TO CUSTOMERS (SUPPLIER SELL PRICE)

While percentage increases are predicted to drop (compared to the previous six months), the cumulative cost impact will be significant for the industry to incorporate in delivering projects over the next 12 months.

## LEAD TIMES ARE HIGHLY VARIABLE, BUT ON AVERAGE STILL REQUIRE GOOD FORWARD PLANNING

Lead times appear to be largely similar to what we saw in November 2021. Many suppliers made comments that differentiated lead times for in-stock product (around a week lead time) vs. special order or once current stocks are depleted (anywhere from 2-8 months).

46% said they were holding additional stock to cope with longer lead times. Domestic freight is also difficult at present impacted by three factors:

- 1. Difficulty in moving build freight due to a shortage of pallets driven by large increases of warehouse stock nationally
- 2. Continued reduced capacity of the Cook Strait freight
- 3. Courier companies struggling due to increased demand and number of staff in isolation

As at the end of February, Omicron is the big unknown. While many are putting initiatives in place to cope, they are unsure exactly how this might impact lead times until we get through the worst of the outbreak.





"International freight lead times won't change, they are already bad, we have been through that exercise. The next six months will see domestic lead times increase as drivers and logistic staff are affected by Omicron."







## HOW PREPARED IS THE SUPPLY CHAIN For omicron?

HOW MUCH PLANNING HAS YOUR BUSINESS DONE TO PREPARE FOR THE ANTICIPATED OMICRON OUTBREAK AND YOUR ABILITY TO MAINTAIN MANUFACTURING AND SERVICE LEVELS?



While overall at least three quarters of suppliers have done a fair amount of planning, the picture is very different depending on the size of business. Among those with 20 or fewer employees, only half have really planned around an Omicron outbreak. By contrast 90% of large businesses (101+ employees) have planned ahead.









"Lead times will increase due to the potential threat of staff having to isolate – and this is not just for us, our suppliers will have the same issue."

"Our international suppliers have reported that they expect the same delays we have been experiencing to continue and not to expect any settling until late 2022, early 2023."



When we asked suppliers what they were doing to prepare for an Omicron outbreak, comments most often mentioned split teams, shifts and remote working. We know from previous surveys that staffing issues are impacting suppliers, and splitting shifts are likely to exacerbate those issues and the ability to supply the construction industry.



#### WHAT PLANS OR ACTIONS DO YOU HAVE IN PLACE TO MITIGATE THE IMPACT ON YOUR BUSINESS IF THERE WERE A WIDESPREAD OMICRON OUTBREAK?

"We have alternative warehousing and freight arrangements, we have an active Covid safe plan that isolates production shifts and we have enabled all non operations staff to work effectively from home." "Areas <100m<sup>2</sup> have teams of 3 staff maximum. 66% of staff work from home on a rotational basis to maintain team isolation from each other. In areas >100m<sup>2</sup>, masks are mandatory. We have applied to be a critical workforce so we can access RATs and operate more appropriately." "We have separated our manufacturing human resources into 2 teams working in designated areas. Breaks are taken in shifts. We are limiting onsite visits and contact with distribution partners e.g. supplier reps, truck, and courier drivers etc."

## APPENDIX

The categories are described as:

**Structure:** Aluminium, Composite Panels for Floors and Walls, Concrete, Fasteners and Connectors, Masonry, Plastics, Site Safety and Roof Access Equipment, Stainless Steel, Steel, Structural Systems, Structural Timber

**Enclosure:** Awnings and Canopies, Enclosure Adhesives, Sealants and Fasteners, Enclosure Balustrades and Stairs, Exterior Decorative Items, Flashings and Expansion Joints, Glazing, Insulation, Roofing and Decking, Tanking and Pre-Cladding, Wall Cladding, Windows, and Doors

**Interior:** Ceiling Systems, Floors, Furniture, Hardware, Joinery Fixtures and Appliances, Partitions and Interior Doors, Signs and Features, Wall, and Ceiling Linings **Finish:** Applied Coatings, Carpeting, Flooring Ancillaries, Flooring Underlays, Overlay Flooring and Wall Panels, Painting, Decoration and Coating, Resilient Surfacing, Tiling

**External:** Engineering Works, External Heating, Landscaping, Roads and Paving, Stretched Fabric Systems

**Other:** Services, Central Vacuum Systems, Communications and Controls, Fire Safety, Heating and Cooling, Lighting and Electrical, Plumbing and Drainage, Sanitaryware, Tapware, Transport, Ventilation and Air Conditioning

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Note: The ratings in some of the stacked bar charts may not add to 100%. This is due to rounding.