Global supply chain issues causing headaches and delays for Ontario construction industry

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By Keith Johnston

It started with toilet paper. Then it was lumber. Now, more than a year and a half into the Covid-19 pandemic, high demand, limited manufacturing capacity and supply chain woes continue to roil every sector of the economy, including residential and commercial construction.

“The industry is experiencing a number of issues with a lot of steel products, especially pre-engineered structural steel components,” says Giovanni Cautillo, president of the Ontario General Contractors Association (OGCA). By email he shared a recent example from one of his members.

“A municipality wanted a structure built and they indicated in the tender that the required completion was to be in August of next year. All of the steel manufacturers communicated that the earliest they could deliver the products would be in June of next year. Hence the municipality needed to change the completion date to align with the delivery of product and thereby disrupting their requirements.”

From steel to resin to roofing materials, shortages of key materials have driven up prices and, when combined with persistent labour shortages, contributed to delays and higher construction costs. The current pain felt by contractors and consumers alike, however, may be short term.

“It’s clearly a COVID-related issue, at the end of the day. It started with COVID, it will end with COVID,” says Benjamin Tal, deputy chief economist of CIBC Capital Markets. “If you believe that by mid-next year—let’s hope, let’s pray—that things will go back to semi-normal, then there’s no reason to believe that the supply chain issues will be with us for years.”

Until then, economists caution that problems with supply and higher prices for some goods will continue. They also note that the current troubles might encourage some creative approaches to procurement and encourage existing pre-pandemic logistical trends, like sourcing goods a little closer to home.

“This will work to accelerate this process,” says Tal.

Crowded ports, stranded shipping containers and limited manufacturing capacity (because of labour shortages and Covid protocols) are all working to create a sluggish pace of delivery for some materials. But Tal points to one culprit as the root cause of the current difficulties.

“It’s not really a function of shortage but rather a function of extreme increase in demand in a very short period of time,” he says.

Demand for new residential construction is producing competition for materials, like prefabricated steel products, that have lately become scarce.

“Just obtaining a regular door frame—a metal door frame—that would have been easy to get anywhere, seemingly becomes difficult to find and source simply because there isn’t enough of the product in the industry because it’s being diverted elsewhere,” says Cautillo.

That scarcity is also driving up prices.

“If we look at the year-to-year comparison for the Producer’s Price Index in the residential construction sector, across Canada that has gone up roughly 19%. That’s a big jump,” says Professor Michael Haughton, CN Fellow in Supply Chain Management at Wilfrid Laurier University.

There is also significant variation by region.

“In Toronto, for example, that’s roughly about 22%. It’s higher in the Gatineau area, and it’s even higher in Calgary,” says Haughton.

The most recent flash estimates of the Industrial Product Price Index (IPPI), released by Statistics Canada earlier this month, reflect the real-world shortages felt on construction sites. The cost of fabricated metal products and construction materials were up 3.3% in September over August, and up a whopping 28.5% from the previous year.

Plastic and rubber products were up 10.5% year-over-year; Cement, glass and other non-metallic mineral products were up by a relatively more modest 6.7%.

One bright spot was lumber, whose price has been sliding steadily in the second half of 2021 after historic highs (and frustrating shortages) that began shortly after the pandemic did. Statistics Canada puts the August to September drop at 2.5% and the year-over-year drop at 6.3%.

Still, the increased cost of other goods is driving up overall costs, a situation perhaps made worse by high fuel prices. Energy and petroleum product prices in September 2021 are up 60.6% from a year ago.

Manufacturers who can’t yet meet demand remains a significant factor in the high cost of materials. Haughton, though, notes that “you see some signals that freight is contributing to this.”

The delay in delivery of material to construction sites is particularly worrying to Cautillo, who has seen contractors worry about the cost of liquidated damages because of later project completion dates.

“I can tell you, anecdotally, some buyers, especially on the public side, have not recognized Covid-19 as a force majeure event, as something that would be unforeseeable to the industry,” he says. “We are advising the buyers of construction to amend where they can the contracts to ensure that our contractors, especially at the time of bidding, are not adversely affected by developments that are outside of their control.”

Cautillo emphasized the point by email.

“The OGCA is trying to ensure that our contractors are not unilaterally bridled with the risk from the uncertainty created in the supply chain.”

Now that Covid has revealed how a global pandemic and long supply chains conspire to create logistical headaches, Professor Haughton is interested if there will be an increased emphasis on resilience and risk management in supply chain planning.

“Given that we have used these overseas suppliers for so long, and have been very dependent on them, we have perhaps almost developed a blind spot to what might be right beneath our noses,” he says. “There may be just around the corner someone who can produce for us—maybe not at the same scale that your overseas supplier can—but that capacity might well exist. And so the search to find where that exists is something that certainly has to take place.”

The process of shortening supply chains by sourcing from nearer, if not domestic, manufacturers—so-called near-shoring—was well underway before the arrival of Covid-19.

“Deglobalization started with Trump, and it was expected it will continue with Biden,” says Tal. “I expect that about 20% of what the US is importing from China will come home. And that’s something that will benefit Canada if we are lucky and if we are able to play the game.”

In the short term, as supply problems continue, Cautillo, Haughton and Tal all emphasize the need for some patience, despite the pain.

“One of the things that has to be emphasized is avoidance of overreaction to what we’re now seeing,” says Haughton. “There’s always the risk of misinterpreting demand signals or overreacting to those demand signals. I think there has to be a significant focus on that. And that I think is going to mean a lot of coordination between those who are closer to the consumer of things and those that are further back in the supply chain.”

So much of the pandemic, it seems, has been about waiting, and patience: for market signals, for toilet paper, for lumber, for vaccines, for steel. And for what might come next.

“We’re hearing lately about glass,” says Cautillo. “Our members do a lot of high-quality hospitals, schools and they call for a certain fire-rated glass. The process is intricate, it takes time, and we want to make sure everything is done properly. You can’t rush this kind of product.”