



# COVID-19: Supply Chain Assessment



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The holiday season is fast approaching and the additional influx of consumer goods is adding more pressure to already strained freight logistics, further driving up costs for fuel, capacity, and labor. A limited workforce to unload ships is continuing to leave many anchored and waiting off shore. Some logistics providers have taken to chartering vessels to circumvent shipping delays. While the cost of this option was not disclosed, it appears to win out over the cost of long delivery delays and skyrocketing container shipping prices.

Covid outbreaks continue to impact trade with one dedicated charter recently denied entry into China due to a positive Covid test. The vessel was forced to return to Indonesia to change the entire crew before continuing, adding two months to the voyage. Circuit board chip shortages continue to hold up manufacturing of equipment across multiple technologies. The world's largest contract chip maker announced that they're raising prices by as much as 20% in an effort to weaken demand and preserve inventory for critical customers, and to aggressively invest in new capacity. With all this disruption, distributors and dealers are relying on utility rebates to help offset these challenges. They are resistant to adjustments such as incentive decreases or implementor changes, and tell us that with so much of the supply in flux, the steadiness of our programs is appreciated and needed.

## Findings

### 1. Product Availability

#### a. HVAC

Manufacturers continue to report material shortages and workforce challenges. With the cost of raw materials increasing with “seemingly no end in sight”, further price increases have been announced ranging from 7-8% on HVAC equipment and up to 20% on select service parts. These price increases are expected to mitigate demand volatility and inflationary pressures. One manufacturer relayed that some lead times have nearly doubled compared to normal. Currently, there is a 50-60 day lead time for residential equipment and roughly 45 days for commercial equipment. Workforce challenges continue as well, as one manufacturer reported that a positive COVID test from a single staff member shut down manufacturing for 10 days.

#### b. Foodservice

Equipment orders across multiple manufacturers and product lines are still facing significant lead times, many leading into 2022. For popular measures such as fryers, dealers are reporting lead times from 8-28 weeks. One dealer confirmed a recently placed order for fryers was not set to be delivered until April 2022. More price increases are anticipated in addition to the normal yearly price increase for January 1, 2022. Some manufacturers are proactively instructing dealers to build in a markup for project quotes.

For these updates, the Trade Ally Team has communicated with the following number of market actors per technology area:

	This Issue	Communications to Date – Vol. 2
HVAC	29	169
Foodservice	14	153
Water Heating	21	119
Pumps	5	72
Lighting	12	79
<b>Total</b>	<b>81</b>	<b>592</b>

Table 1.

### c. Water heating

Circuit board chip shortages continue to heavily impair water heater manufacturers' ability to produce more products. Manufacturers are actively exploring alternative sourcing, and are expecting new water heater production to resume in November 2021. Further price increases are anticipated before the year ends. Some distributors report low inventory, with only enough product to last 1-2 months — with the exception of heat pumps. Other distributors have partnered with multiple manufacturer representatives to keep stock up and sales high.

### d. Lighting

Controlled LED products, often lauded for their increased energy efficiency over already highly efficient products, are facing more of the brunt of supply chain woes. With the increased technology that goes into the production of these pieces of equipment, they too are subject to the complexities of the semiconductor market. The increased lead times are being compounded by shipping and raw material price increases.

## 2. Equipment Sales

### a. HVAC

- i. Manufacturers are reporting record breaking sales for commercial equipment, including indoor air quality (IAQ) add-ons like filters and other accessories. However, logistics delays continue to push out deliveries, installations, and subsequent claim submissions to programs.
- ii. Despite lead time constraints, the market is telling us that the midstream model is working extremely well not only in getting more high efficiency equipment into the market, but also in making sales in general. In particular, one distributor in the Pacific Northwest noted that they were able to make a large VRF sale entirely because of the utility incentives which reduced the cost of the equipment for the customer.

### b. Foodservice

The foodservice equipment industry is reporting a significant increase in sales and quotes, despite an impaired supply chain. Regional sales projections are up in all regions nationwide for the third quarter. Many dealers report being very busy and making every sale they can, upselling high efficiency equipment where possible.

### c. Water Heating

A manufacturer has relayed that heat pump water heater orders have been put on hold essentially through to December 2021, due to impacts from the circuit board chip shortage.

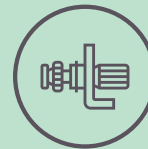
### d. Lighting

Distributors are keeping busy by hosting counter days and other sales focused events, although some note that the increased lead times for controlled products have caused customers to opt for non-controlled products because they are more familiar with them and they can be stocked more quickly.

## 3. Service Providers / Contractors

### a. Water Heating

Wholesale distributors are reporting sales that are basically flat. Home improvement retail sales are up 200%, largely driven by contractor customers and DIY'ers, reducing the demand for water heating service providers and contractors.



### Commercial Market Roundtable

Energy Solutions' upcoming Commercial Market Roundtable is all about pumps.

Save the date: October 13th at 10 AM PST / 1 PM EST. Watch your email for an invitation soon.

To learn more about Energy Solutions' programs and services, contact Jeff Johnston at: [jjohnston@energy-solution.com](mailto:jjohnston@energy-solution.com), [www.energy-solution.com](http://www.energy-solution.com)

**Disclaimer:** The COVID-19 pandemic is an evolving situation, and this report reflects our best estimate of market impacts at this time with the information available. We will be continually updating this forecast and adding details as more information becomes available and the actual impacts of the pandemic on the markets are felt. These updates will be versioned and dated so you can know at what time they apply.

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