

# Supply Chain Assessment

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Hundreds of vessels stalled near the Strait of Hormuz have congested global trade routes amid geopolitical conflict in the Middle East. To mitigate disruptions to supply chain operations, ocean carriers are adjusting their shipping routes and capacity, which has limited vessel availability and delayed a return to the Red Sea for passage through the Suez Canal. Carriers are imposing emergency conflict surcharges for transporting cargo through high-risk zones, as well as fuel-related fees due to rising oil prices that are expected to inflate US shipment costs.

## Findings

### 1. Product Availability

#### a. HVAC and Water Heating

Industry trends reveal increased investments in rooftop units, air-to-water heat pumps, and split-system heat pump water heaters (HPWHs), as well as heat pump chillers to accommodate rising data center demand. As new heat pump products launch in 2026 and 2027, some manufacturers are expanding their portfolios to encompass additional HVAC product offerings, such as air handlers, high-efficiency condensing units (HECUs), and evaporator units (HEEUs).

#### b. Lighting and Electrical

- i. Leading manufacturers continue to launch new products featuring networked lighting control capability and field adjustability.
- ii. In accordance with revised technical requirements released by the DesignLights Consortium, noncompliant products will be delisted in December. Manufacturers are updating their existing models and testing new products to meet these guidelines.

### 2. Equipment Sales

#### a. Across Technologies

- i. A surge in copper and steel prices driven by accelerated AI, data center, and spring project demand has contributed to an upward pricing trend. In February, several HVAC manufacturers implemented various price increases by product type, as high as seven percent for one major manufacturer's residential portfolio. Additionally, the water heating industry is facing pricing pressure as an increasingly saturated HPWH market is prompting manufacturers to lower price quotes to distributors.
- ii. In the Northeast, distributors are looking to leverage program incentives available for municipal territories and stackable incentive opportunities to further promote heat pump and HPWH sales.

#### Trade Ally Team Communications

Technology Domain	This Issue	Volume 7 To Date
HVAC	108	232
Water Heating	76	173
Pumps	26	82
Foodservice	36	76
Lighting and Electrical	44	86
Life Sciences	31	60
Clean Transportation	16	39
<b>Total</b>	<b>337</b>	<b>748</b>



**b. HVAC**

- i. Tariffs, the A2L refrigerant transition, and a challenging housing market have slowed residential sales since January. In contrast, growing demand from data center and multifamily projects has sustained the commercial sector. Reporting steady sales of variable refrigerant flow units and other commercial heat pump equipment, distributors are shoring up A2L inventories and leveraging program incentives to meet heat pump sales targets and high demand expected to continue into 2026.
- ii. Distributors are building their refrigeration market share by incorporating HECU and HEEU program incentives into their sales strategy to win projects in 2026.

**c. Water Heating**

- i. Some Northeastern distributors report that winter's early arrival accelerated boiler equipment sales compared to previous seasons. Meanwhile, distributors observing a slower trend in HPWH sales predict that the availability of new program incentives will help to boost demand.
- ii. Leading manufacturers are hosting webinars in partnership with Energy Solutions, as well as offering product demonstrations and special promotions, to expand distributor and contractor awareness of midstream commercial water heater incentives.

**d. Foodservice**

Citing a period of stagnant sales, some dealers in California anticipate improved activity in 2026 supported by in-store fryer discounts and rebates for dishwashers, ice machines, and other eligible equipment. In the Northeast, sales have been strengthened by induction cooktop demand, school quotes for refrigerators and freezers, and increased opportunities for national dealers in the fast-food chain and hospitality segments.

**e. Lighting and Electrical**

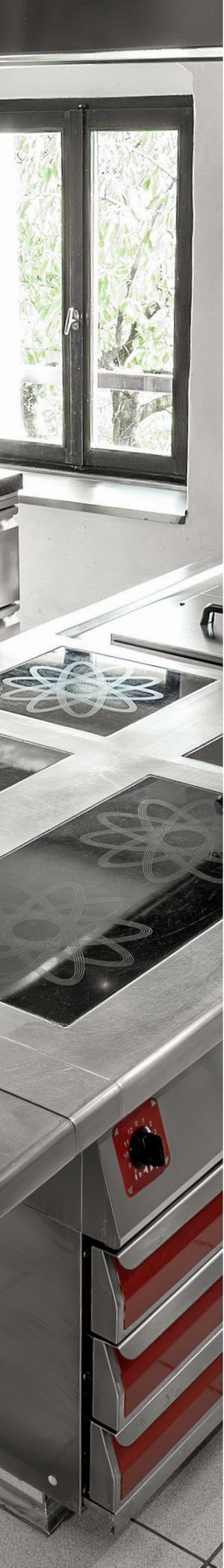
Seasonal sales declines have been compounded by economic uncertainty tied to federal policies and increasing capital costs that have prompted more cautious consumer spending and fewer opportunities for commercial upgrades. After winter storms on the East Coast delayed project activity, sales are expected to rebound as projects resume and program participants maximize their eligibility potential for incentives in 2026.

**f. Life Sciences**

Manufacturers and distributors report an unprecedented slow start to 2026, with fewer eligible sales in January and February compared to past years. As lab projects are scaled down and postponed due to reduced federal spending, year-over-year lab vacancy rates in the Northeastern markets have soared to an estimated high of 30 percent, with the greatest impact to small and medium biotechnology sectors. Despite a growing trend in repairs, program rebates are expected to help secure ultra-low temperature freezer sales to large replacement projects this summer.

**g. Clean Transportation**

The electric vehicle (EV) market is seeing a surge in consumer demand that has bolstered sales for California dealers. While climbing fuel prices drive up costs for gas-powered cars, EV prices continue to fall as more manufacturers introduce affordable models and leverage program incentives following the elimination of the federal EV tax credit.



### 3. Service Providers and Contractors

#### a. HVAC

Rising equipment costs driven by the A2L refrigerant transition, SEER2 efficiency standards, and higher interest rates have limited affordability for many customers. Residential market growth has stalled as homeowners increasingly choose repairs over replacements, reducing project opportunities for contractors that rely on replacement and installation work.

### From the Field

From January through March, Energy Solutions participated in trade shows and industry events across technology areas to build new relationships, strengthen existing partnerships, identify equipment for measure development, and collaborate with our program administrator clients. Our staff met with HVAC, water heating, pump, and fan manufacturers and their representatives at the **AHR Expo and ASHRAE Winter Conference**, revealing positive market feedback for the midstream programs we implement and growing interest in cold-climate heat pump and inverter-driven technologies. At the **Manufacturers' Agents Association for the Foodservice Industry Conference**, the **Multiunit Foodservice Equipment Symposium**, and the **North American Association of Food Equipment Manufacturers Executive Summit**, our staff generated new opportunities with manufacturers, representative groups, dealers, and chain end users, such as product testing to align with measure priorities and increased program participation through Instant Rebates brand promotion.



As the premier HVAC/R industry event, the 2026 AHR Expo gathered more than 50,000 attendees, including manufacturers, industry associations, program administrators, and other service providers.

### About Energy Solutions

For more than 30 years, Energy Solutions has provided cost-effective, market-driven solutions that deliver reliable, large-scale impacts. We implement more midstream and upstream programs in North America than any other company, which gives us access to valuable insights across technologies.

Our program success is fueled by a deep connection to the market. These market relationships have allowed us to closely monitor supply chain impacts to keep you informed.

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

**Disclaimer:** This report reflects our best estimate of market impacts, with the information available at this time. Energy Solutions will continue to provide valuable reporting on supply chain conditions. These updates will be versioned and dated to indicate at what time they apply.

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