

# Dodge Momentum Index: FAQs

## ***What is the Dodge Momentum Index?***

The Dodge Momentum Index is a unique 12-month leading indicator of construction spending for nonresidential building. The index is designed to specifically focus on patterns within the commercial and institutional segments of the industry and uses first issued planning Dodge Report information on construction projects as a leading indicator of the future direction of construction spending. This unique approach differentiates the Dodge Momentum Index from all other indices in the market today. Additional details are available for the overall commercial and institutional sectors, and the sub-sectors of office buildings, retail and warehouse buildings, and education buildings.

## ***What does the index do?***

The index serves as a full-year leading indicator of future construction spending and demand for construction products and services. Due to its high correlation with construction spending, it will prove useful to building product manufacturers, AEC firms, other construction industry professionals, economists and Wall Street analysts.

## ***Where can I go to find out more about how the index is constructed and its relationship to construction spending?***

McGraw-Hill Construction Analytics has written a White Paper to address how the index is calculated and the strength of its relationship to the U.S. Department of Commerce's construction spending put in place. So, the best way to understand the methodology behind the index is to read the white paper. If further information is needed, please reach out to Burleigh Morton. The main thing to remember is that the source of the analysis is the Dodge Report first-issued planning reports. This is a unique approach. No one else in the market place can match this approach or the accuracy it provides. The white paper will also be available up on the MHC web site at: [http://construction.com/download/Dodge\\_Momentum\\_Index\\_WhitePaper.pdf](http://construction.com/download/Dodge_Momentum_Index_WhitePaper.pdf).

## ***How do we know it's accurate?***

The accuracy of the index is derived from its source of data—the proprietary Dodge database of first-issued planning reports. The Dodge database is the largest database of construction projects, populated by reporters in more than 80 major metro areas across the country who call on 35,000 industry sources and cover more than 150,000 sources overall. These personal connections deliver over a half million projects each year, with 5,500 daily updates. One-third of projects in the Dodge database are in the planning stage—the projects that feed the new Dodge Momentum Index.

The robust nature and accuracy of the database is why Dodge is the sole private provider of construction starts and project data analysis to the U.S. Census Bureau, supporting the federal government's monthly estimate of construction spending, a key input for the nation's Gross Domestic Product (GDP).

The rich database translates into even richer analytical applications and tools that provide market trends, sizing and forecasts—both short and long-term, that are highly respected in the industry.

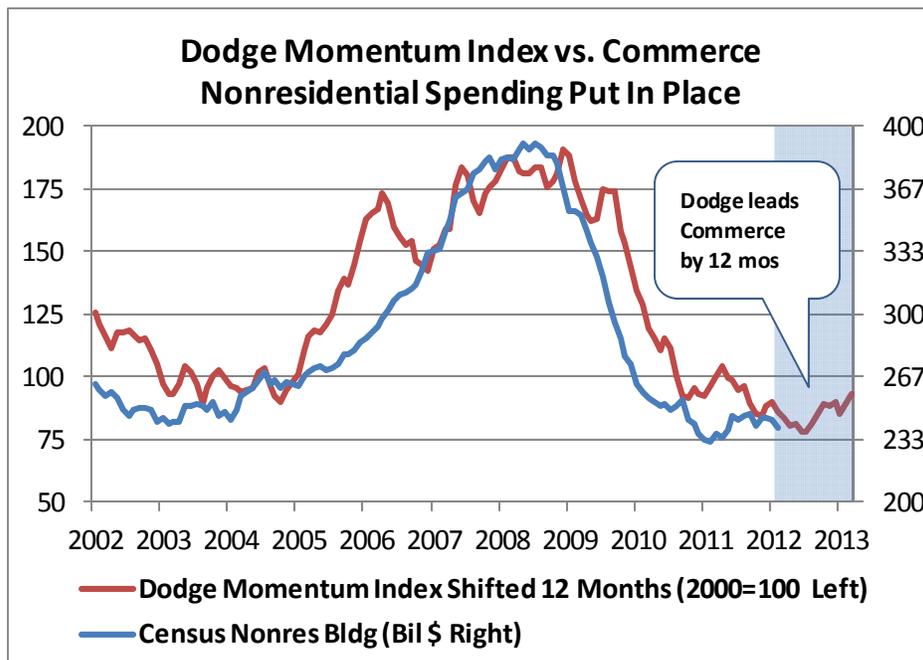
## ***How do we prove its accuracy?***

In designing the new Dodge Momentum Index, McGraw-Hill examined more than a decade of monthly data (from January 2002 to February 2012) and was able to identify an exceptionally

strong relationship – a correlation of 91% for the index as a whole – with the Commerce Department’s nonresidential building construction spending put in place. Importantly, the analysis shows that changes in the Dodge nonresidential new planning data lead changes in Commerce spending put in place by twelve months.

***What does the data mean?***

Since reaching bottom in July 2011 at a level of 77.1 (2000=100), the index has trended up in all but two months. In April 2012, the Dodge Momentum Index climbed 1.0 points from the previous month to reach a level of 94.7. According to Robert Murray, Vice President of Economic Affairs for McGraw-Hill Construction, “The relatively steady movement upward since the middle of last year suggests that construction spending put in place for nonresidential buildings should begin to move in a more consistently positive direction during the second half of 2012. This is good news for an industry that has been strongly hit by declines since the 2009 recession.”



***How does the Dodge Momentum Index differ from our Dodge Index or Outlook?***

The Dodge Momentum Index is based on first-issued Dodge Reports in planning (prior to start) and is designed to only cover nonresidential buildings. The Dodge Index covers the entire construction marketplace and is based on STARTS. The Momentum Index also covers the two main pieces of nonresidential building: commercial and institutional construction, along with several of the largest sub-sectors, including office buildings, retail and warehouse buildings, and education buildings. Manufacturing is included in the Dodge Index for STARTS, but is excluded from the Momentum Index.

The Momentum Index is also different from the Dodge Outlook, which is a forecast of construction starts that is based on econometric models. The Momentum Index uses trends that have occurred (in the index) over the past 12 months to suggest the direction that construction spending might take over the next 12 months.

***Please tell me more about the sector and sub-sector Momentum Indices.***

Because the relationship between Dodge planning data and construction spending varies by project type, a momentum index was not just created for total nonresidential buildings, but for two other broad categories of construction: commercial (which includes offices, retail, warehouses, hotels and auto services) and institutional (which includes education/ dormitory, healthcare, as well as government, recreation, and religious buildings). In addition, McGraw-Hill examined three specific types of buildings that each account for a large share of total construction: office, retail/warehouse/auto service, and education construction. For each of these types of construction, Commerce spending put in place was measured against the Dodge planning data. The correlations and the lags were found to be quite strong for each of these categories.

***Why is this important to my customers?***

The strong relationship established between the Dodge Momentum Index and construction spending, with its full year of lead time, means that the index is likely to prove extremely valuable to construction industry professionals, as well as economists and Wall Street analysts.

For customers, the index serves as an excellent full year leading indicator of future construction spending and demand for construction products and services. The index is another tool to help customers plan ahead with confidence, and also serves as another metric for use in their internal reporting. Customers can also be confident that the source of the index—the proprietary Dodge database—is the largest and most trusted in the world. In addition, the people that are behind the index are the very people behind Dodge's highly respected analytic's team—economists and analysts—including Robert A. Murray, the company's VP of economic affairs.

For economists, the index is an accurate leading indicator of construction spending; another metric when assessing longer term outlooks and the health of the construction industry against the broader economy.

For Wall Street analysts, the index provides directional information that acts as a variable to help underscore predictive models, health of the construction sector, and more.

***Who else would benefit from the knowledge the index provides?***

Economists: For economists, the index is an accurate leading indicator of construction spending; another metric when assessing longer term outlooks and the health of the construction industry against the broader economy.

Wall Street Analysts: For Wall Street analysts, the index provides directional information that acts as a variable to help underscore predictive models, health of the construction sector, and more.

Anyone or any firm who works within the construction industry offers products and services to the industry, or writes about the industry would benefit from the index. There is a need to know how what is happening today will affect business tomorrow. With a lead time of 12-months, there is ample time to plan and strategize to meet individual's needs or the needs of their firms.

***How do we compare to competitors in this space?***

The Dodge Momentum Index, as previously stated, is unique. There is no other source in the industry comparable or even able to build the index in the same way that Dodge can (see methodology). The most familiar index in this space is ABI (Architectural Billings Index). However, ABI's source of data are surveys vs. Dodge' first issued planning reports, for example. There is no comparison.

***How often/when will the Dodge Momentum Index be updated?***

The plan is for the Dodge Momentum Index to come out monthly on the **5<sup>th</sup> business day of each month**. It will be distributed to the press in the form of a press release, and will be available to you via the marketing alerts. It will also be uploaded to construction.com.

***Who should I reach out to if my customer wants more detailed information than I can provide?***

There are several people who can help you. First reach out to your analytics specialist. If needed, you can also reach out to Burleigh Morton. Burleigh will make the call whether Bob Murray or Kim Kennedy might need to be pulled in to help you.

***Can my customers have access to the historical time series for the Dodge Momentum Index?***

YES! To request the time series of data for the Dodge Momentum Index and its components, please email [info@mcgraw-hill.com](mailto:info@mcgraw-hill.com) or call 1-800-591-4462. It will be provided in an Excel spreadsheet.