Third Quarter
July – September 2015

The ASID
Interior Design Billings Index
Design industry business conditions remain on solid footing with steady positive activity.
Overall, the design industry's third quarter survey results show steady and positive improvement from that of the second quarter. Billings by design firms ticked up slightly in September compared to June's IDBI score of 57.1. Based on the IDBI three-month moving average, billings have been in positive territory since the third quarter of 2011, and September's score indicates positive revenue growth. A score above 50 indicates expansion, while a score below 50 indicates contraction. The September new project inquiry index score of 62.8 is also up from the June score of 58.3 and has shown a series of steady positive scores since late 2011.

The ASID IDBI reflects positive scores across firm sizes in September.
While there was a midsummer slowing in billing increases across all regions of the country, design firm billings were in positive territory by the end of September.

Billing results vary by market specialization.
Design firms specializing in single-family residential projects report growth during the second and third quarters of 2015, posting IDBI scores of 57.5 and 55.8 respectively. Through all of the second and most of the third quarter, with the exception of September, IDBI scores for retail, entertainment, office, and hospitality remained between 50 and 65. Meanwhile, institutional sector billings continued to be erratic during the third quarter, fluctuating in and out of positive territory.

Six Month Outlook – Stronger Business Conditions Expected.
Looking forward, the design industry remains positive about near term outlook for the industry. While the six-month business conditions index score of 66 for September is down from the June score of 74, the consistency of these scores (above 50) in positive territory suggests ongoing continued expansion for the design industry.

When viewed together, the ASID six-month interior design business conditions index, the Conference Board's expectations index, and the Dodge Momentum Index remain at recent highs and indicate a positive trajectory for the design and construction industries for the remainder of 2015. We expect design firms to post an increase in billings for the fourth quarter, with an IDBI score of 57.0.

Labor market lackluster during third quarter; design employment remains a bright spot.
September’s employment report for the U.S. as reported by the U.S. Bureau of Labor Statistics showed that payrolls increased by only 142,000, while the weak August number was revised downward to 136,000. A large upward revision had been expected. Average hourly earnings were flat and the unemployment rate was unchanged at 5.1 percent for September, significantly lower than the 5.5 percent recorded in March. Consistent with the pattern of increased billings and economic activity, architectural and interior design payrolls have grown in the third quarter and continue to show gains since February 2012.
Construction spending continues rebound.
The developing construction spending trends indicate healthy momentum. Total new construction spending is approximately 13.7 percent above its August 2014 level. In August 2015, spending increased 0.7 percent from July with private construction as the main driver and gains in both the residential and nonresidential components. Public construction increased 0.5 percent, although both new highway and educational structure construction spending decreased. It is important to note that the month-to-month values are subject to revision, and we will continue to monitor.

During the fourth quarter of 2015, we expect residential improvement spending to increase to $106.8 billion for the quarter, a year over year increase of 13.5 percent from the fourth quarter of 2014. This will, however, be a decrease of 2 percent since the second quarter of 2015.

According to Jack Kleinhenz, ASID economist:
“Overall economic growth has slowed due to economic crosscurrents during the third quarter, but consumer spending, along with long awaited housing and construction activity, are providing needed fuel to keep the economy on track. Consumer and business spending should keep the design industry momentum in place for the near term. The slightly slower U.S. economy should prove to be temporary and not prove to be a major speed bump for the design industry, and panelists remain positive about the near term outlook for the industry.”
Design Industry Business Conditions Remain On Solid Footing with Steady Positive Activity

Overall, the design industry’s third quarter survey results show steady and positive improvement from the second quarter. Billings by design firms ticked up slightly in September compared to June’s IDBI score of 57.1. Based on the IDBI three-month moving average, billings have been in positive territory since the third quarter of 2011. September’s score indicates positive revenue growth. A score above 50 indicates expansion, while a score below 50 indicates contraction. The September new project inquiry index score of 62.8 is also up from the June score of 58.3 and has shown a series of steady positive scores since late 2011.

Table 1: Billings and Inquiries

<table>
<thead>
<tr>
<th>Question to ASID Survey Participant</th>
<th>Significantly increased</th>
<th>About the same</th>
<th>Significantly decreased</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>How do billings compare to previous month?</td>
<td>34%</td>
<td>50%</td>
<td>16%</td>
<td>59.0</td>
</tr>
<tr>
<td>How do new project inquiries* compare to the previous month?</td>
<td>40%</td>
<td>45%</td>
<td>15%</td>
<td>62.8</td>
</tr>
</tbody>
</table>

*Includes calls, emails, interviews, bids, solicitations, and RFPs.

Figure 1: American Society of Interior Design Billings and Inquiries Index
As shown in Figure 2, while AIA’s billings on a three-month moving average tracks consistently below that of the ASID IDBI three-month moving average, both readings are indicating positive business conditions during the third quarter of 2015. As noted in previous reports, the IDBI tends to run slightly ahead in terms of higher billings than the AIA, but this pattern in part reflects a difference in the underlying base of activities.

Figure 2: ASID and AIA Billings Indices
Billings by Firm Size

IDBI billing scores were positive across all firm sizes in September compared to August. (Any score above 50 indicates an increase in billings). Sole practitioners returned to positive territory in September after contracting in August, but showed a slight slippage in the pace of billings compared to June. After posting an increase in July, firms with two to nine employees showed a slowing in billing increases for August and September. Billings for firms with 10 to 24 employees contracted in July and August but posted a rebound in September. Very large firms responded in insufficient numbers to report. (Figure 3)

Table 2: Billings by Size of Firm

<table>
<thead>
<tr>
<th>Size of ASID Member Firm</th>
<th>INDEX: Sept 2015</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole practitioner</td>
<td>60.3</td>
<td>39</td>
</tr>
<tr>
<td>2 to 9</td>
<td>55.3</td>
<td>38</td>
</tr>
<tr>
<td>10 to 24</td>
<td>60.0</td>
<td>5</td>
</tr>
<tr>
<td>25 or more</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Figure 3: Billings by Size of Firm
Billings by Region

While there was a midsummer slowing in billing increases across all regions of the country, billings for interior design firms were in positive territory by the end of September. Over the last four quarters, firms within the South and Midwest regions have shown healthy conditions with IDBI scores of greater than 50 (Figure 4). After posting scores below 50 since October 2014, Northeast firms rose above 50 in May and have remained so throughout the summer months. And, after reaching a recent high of 68 in May, the pace of billings decreased to a score of 50 for firms in the West in September.

There are regional similarities and differences in comparing the IDBI and AIA indices (Figure 4 and Figure 5). Interior design and architecture firms located in the South have shown sustained growth for the past four quarters with scores above 50 for both associations. In the Northeast region, ASID firms indicate a recovery from declines in billings during the winter and spring months. Over that same time period, AIA firms could not sustain their recovery and experienced a fall-off in August and September.
Figure 5: Billings Index by Region-AIA

Midwest
Northeast
South
West

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Billings by Sector

IDBI billing performance by market sector is illustrated in Figures 6, 7, and 8. Showing its steady demand for interior design and ending the quarter with an IDBI score of 55.8, the single family sector has shown continued gains for each of the past four quarters. Multifamily billings have been erratic but ended the quarter with a score of 51.9. The pace of increases suffered from a late summer slowing after posting a high of 70 in July, denoting very widespread increases in billings.

Note: The data does not account for seasonality.

Figure 6: Residential Sector Billings

Through all of the second and most of the third quarter, with the exception of September, IDBI scores for retail, entertainment, office, and hospitality remained between 50 and 65. September scores plunged below 50 for all but the office sector, which remained above 55. Firms specializing in the retail, entertainment, and hospitality sectors all reported decreased billings for the month of September (Figure 7).
Healthcare has reported fewer firms with increased billings since May. In fact, by September, the IDBI healthcare score indicated reduced billings when compared to August. With the exception of July 2015, firms specializing in government services have shown a steady string of scores in positive territory since September 2014. September’s government sector score of 55 was three points lower than reported in June. Billings for interior design firms in the education space have reported fits and starts during the first half of 2015. The most current reading of 59 indicates that firms are experiencing billing increases. This score is up from a low of 36 in June (Figure 8).
Six-Month Outlook: Stronger Business Conditions Expected

Looking forward, the design industry remains positive about the near term outlook for the industry. While the six-month business conditions index score of 66 for September is down from the June score of 74, the consistency of these scores (above 50) in positive territory suggests ongoing continued expansion for the design industry (Table 3).

Table 3: Expectations for Interior Design Business Conditions - Next Six Months

<table>
<thead>
<tr>
<th>Expectations</th>
<th>ASID</th>
</tr>
</thead>
<tbody>
<tr>
<td>About the same</td>
<td>53%</td>
</tr>
<tr>
<td>Better than they are now</td>
<td>39%</td>
</tr>
<tr>
<td>Worse than they are now</td>
<td>7%</td>
</tr>
<tr>
<td>Business Six-Month Outlook Index</td>
<td>66.0</td>
</tr>
</tbody>
</table>

The Conference Board’s expectations sub-index of overall consumer confidence dropped to a score of 91 from a score of 92.8 in June, due perhaps to some ominous headlines about the stock market and global economy during the summer. Nonetheless, while not shown, the income index rose, indicating that more people are expecting an increase in their family’s income over the next six months than at any other time since March. Consumers are keeping a close eye on their personal finances, but also indicate a willingness to purchase big-ticket items in the coming months, which would provide a welcome boon to the design and related construction sectors.

The Dodge Momentum Index moved higher in September to a score of 133.5 (2000=100) from its June reading of 118.4. The Momentum Index is a monthly measure of the first (or initial) report for nonresidential building projects in planning, which have been shown to lead construction spending for nonresidential buildings by a full year. The impetus behind September’s gains are increases in both institutional and commercial building planning.

Taken together the ASID six-month interior design business conditions index, the Conference Board’s expectations index, and the Dodge Momentum Index remain at recent highs and indicate a positive trajectory for the design and construction industries for the remainder of 2015. We expect design firms to post an increase in billings for the fourth quarter with an IDBI score of 57.0.

Figure 9: Six-Month Outlook Comparison (ASID, Conference Board, and Dodge Momentum) Sept 2014 – Sept 2015
Residential improvement spending (Figure 11) totaled $110.9 billion in August 2015, nearly 1.0 percent higher than the previous month. However, residential improvement spending is approximately 17 percent higher than the same month a year earlier. It is important to note that the month-to-month values are subject to wide variations and revisions. During the fourth quarter of 2015, we expect residential improvement spending to increase to $106.8 billion for the quarter, a year-over-year increase of 13.5 percent from the fourth quarter of 2014. This will, however, be a decrease of 2 percent from the second quarter of 2015.
Figure 11: Residential Improvement Spending & ASID Interior Design Billings Index August 2014 – August 2015
September’s employment report for the U.S. as reported by the U.S. Bureau of Labor Statistics showed that payrolls increased by only 142,000, while the weak August number was revised downward to 136,000. A large upward revision had been expected. Average hourly earnings were flat and the unemployment rate was unchanged at 5.1 percent for September, significantly lower than the 5.5 percent recorded in March. Consistent with the pattern of increased billings and economic activity, architectural and interior design payrolls have grown in the third quarter and continue to show gains since February 2012.

Figure 12: Interior Design and Architectural Services Payrolls August 2013 – August 2015

12 Month Net Change in Employment

In November 2010, The American Society of Interior Designers (ASID) launched the ASID Interior Design Billing Index. The ASID survey, conducted monthly, is designed to provide a unique perspective on current and future business conditions for the interior design industry both nationally and regionally for all firm sizes. A total of 300 firms are invited to participate in this program. Firms included in this survey primarily offer interior design services. While many are interior design only firms, panelists are reporting from architectural firms, engineering firms, and other related enterprises. Panelists are asked to report on their current billings relative to the previous months and report on recent business inquires. A business sentiment question is also asked regarding how the general business conditions of the entire economy will be six months from now. The results of the survey are compiled into diffusion indexes which are helpful indicators of changes in the direction of economic activity. The ASID indexes are centered on 50 percent (above 50 indicates expansion and below 50 contraction).