Fourth Quarter
October – December 2015

The ASID Interior Design Billings Index
Business conditions dipped in December but 2015 was a solid year.
Overall, survey results for the fourth quarter showed a slight pull back from the positive momentum the design industry has experienced over the course of the past 36 months. Business conditions in 2015 continued to be healthy and supportive of the design industry. Building on the momentum experienced in 2012 and into 2014, the average IDBI score of 57.2 was identical to its 2014 figure. The December New Project Inquiry rate of 45.8 was down from the September value of 63, but remains at a very high level with an annual average score of 60.7.

Demand for interior design services was softer for most size cohorts.
Design firms experienced a modest downturn in December across all sizes of firms compared to September. December IDBI billings show contraction (IDBI scores of less than 50) across all sizes of firms since September, with the exception of firms employing between 10 and 24 people. This cohort of interior design firms reported an IDBI score of 60. During 2015, both sole proprietors and firms employing between two and nine employees experienced mild volatility in demand but were in expansionary territory.

Business conditions continue to vary across regions.
Looking across the nation, all regions indicated business conditions had weakened at the close of the year. The South and Midwest regions report IDBI scores of 41 and 47, a decline in month-over-month billings. Both regions had spent the past 12 months with positive IDBI scores above 50. The Northeast, after having enjoyed strong second and third quarters, stayed above an IDBI of 50 until December, when it dipped to 46. The West ended the year with a three-month fourth quarter average of 45, down from its third quarter IDBI average of 52.

Billing results vary by market specialization.
Design firms specializing in single-family and multifamily residential projects reported growth during the second and third quarters of 2015 but ended the year with IDBI scores of 48 and 44, respectively. All sectors in December, except for the healthcare sector, reported decreased IDBI scores, suggesting fewer firms experienced increases in billings for the quarter rather than weaker demand.

Six Month Outlook – Stronger Business Conditions Expected.
Looking forward, the design industry remains positive about its near-term outlook for its industry. The December six-month business conditions index score of 68 is virtually unchanged from the September score of 66, indicating expected increases in billings. The consistency of these scores suggests continued expansion for the design industry. 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 in 2016.
The labor market ended 2015 on a strong note. U.S. nonfarm payrolls rose by a net 292,000 in December, stronger than the 220,000 average over the prior six months. The unemployment rate has remained at 5.0 percent for the past three months. Average hourly earnings were unchanged and remain the missing piece of the labor market recovery. Other data continues to suggest that growth is right around the corner. Architectural and interior design services job growth continues, with monthly net gains in jobs for both professions since February 2012.

Construction spending was erratic but positive for 2015. Total construction spending for November was 0.4 percent lower than October, but 10.5 percent higher than in November 2014. Looking at the components, private construction, both residential and nonresidential, was the driver of 2015 growth. Spending on private residential structures, particularly excluding home improvement, was a consistent performer, where single-family and multifamily spending have been upbeat. According to the U.S. Census figures, aside from spending on educational structures, public construction spending was disappointing.

According to Jack Kleinhenz, ASID economist:
“All indicators signal that the demand for design industry services should maintain momentum into 2016 as economic and labor markets continue to advance. I’m not overly concerned about the recent contractionary readings, as their overall trend remains in expansionary territory. Nevertheless, construction spending will continue to show fits and starts and some backpedaling is probable to show up in the cards.”
Design Industry business conditions showed a dip in December, but 2015 was a solid year. Overall, survey results for the fourth quarter showed a slight pull back from the positive momentum the design industry had been experiencing over the past 36 months. The December ASID IDBI value of 45.3 was a drop from the 59.0 score registered in September. The three-month moving average was 53.2 for the quarter, which indicates positive revenue growth (score of 50 or above). Although December’s score indicated a decline in the billings measure, 79 percent of respondents indicated an increase or the same level of billings from November. The new project inquiry rate declined to 45.8, notably lower than the September score of 62.8 and the June value of 58.3.

<table>
<thead>
<tr>
<th>Question to ASID Survey Participant</th>
<th>Significantly increased (up 5% or more)</th>
<th>About the same</th>
<th>Significantly decreased (down 5% or more)</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>How do billings compare to previous month?</td>
<td>13%</td>
<td>66%</td>
<td>22%</td>
<td>45.3</td>
</tr>
<tr>
<td>How do new project inquiries* compare to the previous month?</td>
<td>21%</td>
<td>50%</td>
<td>29%</td>
<td>45.8</td>
</tr>
</tbody>
</table>

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

Figure 1: American Society of Interior Design Billings and Inquiries Index - December 2014 to December 2015
Business conditions in 2015 continued to be healthy and supportive of the design industry. Building on the momentum from 2012 that continued into 2014, the average IDBI score of 57.2 was identical to its 2014 figure. The ASID project inquiries scores continued to remain very high, with an average of 60.7, slightly below the 62.7 posted for 2014. There were many crosscurrents in the economy in 2015, including renewed growth in housing and construction activity, key drivers of the interior design industry.

While Figure 2 illustrates how the AIA three-month index falls consistently below that of the ASID IDBI three-month index, both readings are indicating positive business conditions during the fourth quarter of 2015 (any score above 50 indicates an increase in billings). As previously reported, the IDBI tends to run ahead in terms of higher billings than the AIA, but this pattern in part reflects differences in the underlying base of activities.

Figure 2: ASID and AIA Billings Indices - December 2014 to December 2015
Billings by Firm Size

Design firms experienced a modest downturn in December across all sizes of firms compared to September, with the exception of firms employing between 10 and 24 people. The number of respondents is relatively low in the larger firm size categories and results should be interpreted with caution. Figure 3 shows the volatility of these series. (Figure 3)

Table 2: Billings by Size of Firm - December 2015

<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>43.1</td>
<td>36</td>
</tr>
<tr>
<td>2 to 9</td>
<td>42.7</td>
<td>41</td>
</tr>
<tr>
<td>10 to 24</td>
<td>60.0</td>
<td>5</td>
</tr>
<tr>
<td>25 or more</td>
<td>33.3</td>
<td>3</td>
</tr>
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How do you estimate billings were for the month of December compared to November?

Both sole proprietors and firms employing between two and nine employees experienced mild volatility in demand, but the pace of growth continued. Sole proprietors had a better year in 2015 than in 2014, with the average IDBI index for sole proprietors increasing from 52.8 to 57.3. Firms employing between two and nine employees also reported solid results, with an annual IDBI index of 60.

Figure 3: Billings by Size of Firm - December 2014 to December 2015

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Billings by Region

Looking across the nation, all regions indicated business conditions had weakened at the close of the year. There was a notable falloff for firms located in the Midwest, Northeast, and South, which had reported growth in November, while firms in the West had reported soft demand throughout the fourth quarter. (Figure 4)

Business conditions varied by region in 2015. Firms located in the South and Midwest increased billings the most compared to firms in the West and Northeast. Firms in the South and Midwest appear to have had steady demand, while firms operating in the West and Northeast experienced rather erratic demand. By midyear, the Northeast was up over the 50 IDBI mark but the West region reversed course with scores below 50 beginning in mid-summer. These results clearly illustrate that the market for interior design services is not monolithic, and is very much driven by regional business conditions.

There are regional similarities and differences in comparing the IDBI and the AIA indices (Figure 4 and Figure 5). Design and architecture firms located in the South are both showing sustained growth for the past four quarters, with three-month average scores above 50. Interior designers in the South reported an IDBI of 41 in December, while AIA survey participants reported a score of 53. ASID firms in the Northeast show a recovery from declines in billings during the winter and spring months. AIA firms in the Northeast, over that same time period, appear not to have rebounded and experienced a falloff from August through the fourth quarter.
On a methodological note: The geographic distribution of December’s ASID respondents overrepresent the Midwest and West regions in terms of the geographic distribution of all interior design firms as shown in Table 3. For example, respondents from the Midwest region account for 22 percent of the survey’s results, while all interior design firms located in the Midwest account for 15 percent of the population. Similarly, in the Northeast, 17 percent of survey respondents represent 22 percent of all interior design firms in that region. Those in the South are underrepresented, with a population of 38 percent but whose respondents only represent 33 percent of survey results.

Table 3: Geographic Representation by Census Region - December 2015

<table>
<thead>
<tr>
<th>Census Region</th>
<th>ASID Survey Respondents*</th>
<th>Distribution of Interior Design Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midwest</td>
<td>22%</td>
<td>15%</td>
</tr>
<tr>
<td>Northeast</td>
<td>17%</td>
<td>22%</td>
</tr>
<tr>
<td>South</td>
<td>33%</td>
<td>38%</td>
</tr>
<tr>
<td>West</td>
<td>31%</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Based on December 2015 survey results.
Billings by Sector

Figures 6, 7, and 8 illustrate the recent trends in billing performance by market sectors. As shown in Figure 6, design firms specializing in single-family and multifamily residential real estate reported softer business conditions at year-end with scores of 48.3 and 43.8. This should not be a cause for concern as the readings may include seasonal factors at work and the data is not adjusted for seasonality.

Figure 6: Residential Sector Billings - December 2014 to December 2015

Figure 7 shows that business conditions during the fourth quarter of 2015 were challenging for firms in the commercial sector interior design. The sole exception may have been the office sector, but it, too, succumbed to a setback in December; probably seasonally triggered. Retail, hospitality, and entertainment sectors benefited from strong billings in the spring and summer months of 2015, staying at or rising above IDBI scores of 50. (Figure 7)

Figure 7: Commercial Sector Billings - December 2014 to December 2015
Healthcare firms reported positive business conditions in December with a score of 50, though firms in the education and government sectors reported less demand, with scores of 43 and 40, respectively. (Figure 8)

Figure 8: Institutional Sector Billings - December 2014 to December 2015

During 2015, demand for design firms with residential specialization continued to show solid momentum, with an annual average IDBI score of 58.3, nearly identical to the average of 58.9 in 2014. The IDBI score for firms providing multifamily services was also in positive territory for six of the 12 months; posting an annual average score of 52.2 as compared to the average score of 54.0 in 2014. The office sector benefited from stronger demand, as indicated by scores above 50 or better for 10 out of the 12 months. While the institutional sector experienced erratic business conditions, the annual average monthly scores for all business lines in the sector were at or above 50, indicating healthy business conditions for 2015. Healthcare/medical was a standout with an average score of 54.1, which equaled its performance in 2014.
Six-Month Outlook: Stronger Business Conditions Expected

Looking forward, the design industry remains positive about the near-term outlook for the industry. The six-month business conditions index score of 68 for December is slightly up from the September outlook of 66, but down from the June score of 74. The consistency of these scores (above 50) suggest ongoing, continued expansion for the design industry. (Table 9)

Table 9: Expectations for the 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>50%</td>
</tr>
<tr>
<td>Better than they are now</td>
<td>43%</td>
</tr>
<tr>
<td>Worse than they are now</td>
<td>7%</td>
</tr>
<tr>
<td>Business Six-Month Outlook Index</td>
<td>68</td>
</tr>
</tbody>
</table>

The Conference Board’s expectations subindex of the overall consumer confidence measure rose 3.5 points to 83.9 in December, driven primarily by decreasing pessimism over jobs and income in the coming six months. However, expectations are perhaps less optimistic than a year ago, as the December 2014 index was 4.6 points higher at 88.5.

The Dodge Momentum Index finished 2015 at 125.2 (2000=100) in December, up 2.4 percent from its reading at the end of 2014. 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.

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 in 2016.

Figure 9: Six-Month Outlook Comparison (ASID, Conference Board, and Dodge Momentum) - December 2014 to December 2015
Residential improvement spending (Figure 11) amounted to $144,300 million in November 2015, essentially unchanged from the previous month. However, residential improvement spending was nearly 8.3 percent higher than the same month a year earlier. In its early 2015 release, the U.S. Census said figures “for January 2005 through October 2015 have been revised to correct a processing error in the tabulation of data on private residential improvement spending.” This correction added more than $30 billion to the seasonally adjusted annual rate totals for each month from May 2014 through September 2015. This correction also revised total residential spending as shown in Figure 10.

Total construction spending for November was $1.123 trillion at an annualized rate, 0.4 percent lower than the previous month’s $1.127 trillion but 10.5 percent higher than in November 2014. Looking at the components, private construction, both residential and nonresidential, was the driver of 2015 growth. Spending on private residential structures, particularly excluding home improvement, was a consistent performer, where single-family and multifamily spending have been upbeat. According to the U.S. Census figures, aside from spending on educational structures, public construction spending was disappointing.
Figure 11: Residential Improvement Spending & ASID Interior Design Billings Index, November 2014 to November 2015

[Graph showing Residential Improvement Spending and ASID Interior Design Billings Index from November 2014 to November 2015.]

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Labor Market

The U.S. labor market ended 2015 on a strong note, with nonfarm payrolls rising by a net 292,000 in December, stronger than the 220,000 average over the prior six months. The unemployment rate has remained at 5.0 percent for the last three months. Average hourly earnings were unchanged and remain the missing piece of the labor market recovery. Other data continues to suggest that growth is right around the corner. As shown in Figure 12, architectural and interior design services job growth continued with monthly net gains in jobs for both professions since February 2012.

Figure 12: Interior Design and Architectural Services Payrolls November 2012-November 2015
12-Month Net Change in Employment