First Quarter
January – March 2016

The ASID Interior Design Billings Index
First quarter showed positive momentum for design industry.
Design firms in March reported strong and accelerating business after a weak January and February. The March ASID IDBI value was 60.8, a positive upswing from the December ASID value of 45.3. The new project inquiry rate increased to 58.5, notably above the December score of 45.8.

Upturn in demand for interior design services for most size cohorts.
Design firms of all sizes enjoyed a positive billings upturn in the first quarter, with the exception of firms employing between 10 and 24 people. This cohort reported an IDBI score of 42, while all others reported between 56 and 69.

ASID firms by region have reported a rebound in billings this quarter reflecting positive business conditions.
Looking across the nation, all regions indicated business conditions had strengthened over the first quarter. The South and Midwest regions report IDBI scores of 61 and 53.

Billing results are positive for most market specializations.
Design firms specializing in single-family and multifamily residential sectors ended the first quarter with an upturn in billings and reported scores of over 60. With the exception of the office sector, commercial sector interior design firms have experienced disappointing business conditions over the last six months. Healthcare interior design firms reported positive business conditions in March with an IDBI score of 55. The education and government sectors reported no change in demand and IDBI scores of 50.

Six-month outlook: Stronger business conditions expected.
Looking forward, the design community remains positive about the near term outlook for the industry. The six-month business conditions index score of 63 for March is only slightly lower than its score of 68 for December and 66 for September. The consistency of these scores (above 50) suggests ongoing continued expansion for the design industry.

The labor market continues to improve at a steady pace.
Private payrolls increased by 195,000 in March matching its three-month average. The unemployment rate notched up to 5 percent in March and average hourly earnings increased by 0.3 percent, bringing the year-over-year gain to 2.3 percent. Architectural services job growth tapered in the first two months of the year and interior design job growth shows the first year over year decline since early 2011.
February spending posts hefty, diverse 12-month gains.
Spending growth was widespread and balanced among the private and public construction segments and trending upward at a robust clip. Construction spending in February was 0.5 percent lower than the upwardly revised January rate, but up by 10.3 percent from February 2015.

According to Jack Kleinhenz, ASID economist:
“The U.S. economy was saddled with another weak first quarter, but looking forward, fundamentals appear solid. The pace of job growth is steady, unemployment claims are well below late 2000 levels, consumer confidence remains elevated, manufacturing conditions are improving, and home and equity prices have strengthened. These dynamics signal that the economy will improve in the coming months and will support the positive outlook by ASID panelists.”
ASID Survey: First quarter showed positive momentum for design industry

Design firms in March reported strong and accelerating business after a weak January and February. The March ASID IDBI value was 60.8, a positive upswing from the December value of 45.3. The three-month moving average was 59.3 for the quarter, indicating positive revenue growth. (Score of 50 or above) The survey results reflect the trend over the last 36 months of positive momentum. The new project inquiry rate increased to 58.5, notably above the December score of 45.8.

Table 1: Billings and Inquiries, March 2016

<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>41%</td>
<td>40%</td>
<td>19%</td>
<td>60.8</td>
</tr>
<tr>
<td>How do new project inquiries* compare to the previous month?</td>
<td>33%</td>
<td>51%</td>
<td>16%</td>
<td>58.5</td>
</tr>
</tbody>
</table>

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

Figure 1: American Society of Interior Design Billings and Inquiries Index, March 2015 to March 2016
While Figure 2 illustrates how the AIA three-month billings index falls consistently below that of the ASID IDBI three-month billings index, both readings indicate positive business conditions during the first quarter of 2016 (Any score above 50 indicates an increase in billings). As previously reported, the IDBI tends to run ahead of the AIA in terms of billings, but this pattern in part reflects differences in the underlying base of activities.

Figure 2: ASID and AIA Billings Indices, March 2015 to March 2016
Billings by Firm Size

Design firms of all sizes enjoyed a positive billings upturn in the first quarter of 2016, with the exception of firms employing between 10 and 24 people. The number of respondents is low in the larger firm size categories and results should be interpreted with caution. Figure 3 shows the volatility of the series.

Table 2: Billings by Size of Firm, March 2016

How do you estimate billings were for the month of March compared to February?

<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>56.4</td>
<td>39</td>
</tr>
<tr>
<td>2 to 9</td>
<td>68.9</td>
<td>37</td>
</tr>
<tr>
<td>10 to 24</td>
<td>41.7</td>
<td>6</td>
</tr>
<tr>
<td>25 or more</td>
<td>66.7</td>
<td>3</td>
</tr>
</tbody>
</table>

Figure 3: Billings by Size of Firm, March 2015 to March 2016
ASID firms by region have reported a rebound in billings in the first quarter, reflecting positive business conditions (Figure 4).

Regional similarities and differences exist in comparing the IDBI and AIA indices (Figure 4 and Figure 5). Design and architecture firms located in the South report growth for the past four quarters and three-month average scores above 50. Interior designers in the South reported an IDBI of 61 in March, while AIA survey participants reported a score of 52. ASID firms in the Northeast show a recovery from billing declines during the winter months. AIA firms in the Northeast report an average billings score of 50.3 over the same time period.
On a methodological note, the geographic distribution of March’s ASID respondents over-represent 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 20 percent of the survey’s results, while all interior design firms located in the Midwest account for 15 percent of the population. In the Northeast, 15 percent of survey respondents represent 22 percent of all interior design firms in that region.

Table 3: Geographic Representation by Census Region, March 2016

<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>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Northeast</td>
<td>15%</td>
<td>22%</td>
</tr>
<tr>
<td>South</td>
<td>36%</td>
<td>38%</td>
</tr>
<tr>
<td>West</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Based on March 2016 survey results.
Billings by Sector

Figures 6, 7, and 8 illustrate the recent trends in billing performance by market sector. As shown in Figure 6, design firms specializing in single-family and multifamily residential sectors reported billings scores over 60 in February and March. The data are not adjusted for seasonality. While housing sales and new construction scores have been mixed, fundamentals are in place for increased demand as mortgage rates are low and jobs and incomes are increasing.

Figure 6: Residential Sector Billings, March 2015 to March 2016

Figure 7 reflects that commercial sector interior design firms have experienced disappointing business conditions over the last six months. The sole exception appears to be the office sector.

Figure 7: Commercial Sector Billings, March 2015 to March 2016
Healthcare interior design firms reported positive business conditions in March with a score of 55. The education and government sectors reported no change in demand with scores of 50 (Figure 8).

Figure 8: Institutional Sector Billings, March 2015 to March 2016
Looking forward, the design community remains positive about the near term outlook for the industry. The six-month business conditions index score of 63 for March is only slightly lower than its score of 68 for December and 66 for September. The consistency of these scores (above 50) suggests 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>52%</td>
</tr>
<tr>
<td>Better than they are now</td>
<td>36%</td>
</tr>
<tr>
<td>Worse than they are now</td>
<td>11%</td>
</tr>
</tbody>
</table>

The Conference Board’s March expectations sub-index of the overall consumer confidence measure rose 1.7 points to 84.7 in March. Consumers appear to be more optimistic about the near-term outlook for businesses and employment. However, expectations of income increases actually took a slight dip. Expectations are less hopeful on a year-over-year basis as the March 2015 index was 11.3 points higher at 96.0.

The March Dodge Momentum Index (DMI) posted its first weak reading of the year, falling to 117.4. This figure is 4 percent lower than December’s reading and represents the lowest reading since June 2015. The Momentum Index is a monthly measure of the first report for nonresidential building projects in planning, and has been shown to lead construction spending for nonresidential buildings by a full year.

The first quarter downward trajectory of the ASID six-month index and the DMI may reflect the broader slowing economy and associated uncertainty. Nonetheless, all three indices remain relatively elevated and portend that spending will continue over the next six-months.

Figure 9: Six-Month Outlook Comparison: ASID, Conference Board and Dodge Momentum March 2015 to March 2016
Construction spending was widespread, balanced, and trending upward.

Construction spending in February totaled $1.144 trillion at a seasonally-adjusted annual rate, and was 0.5 percent lower than the upwardly revised January rate, and 10.3 percent higher than the February 2015 rate. Spending growth was widespread and balanced among the private and public construction segments and trending upward at a robust clip. Public construction dropped 1.7 percent for the month but climbed 9.2 percent year over year. Private residential spending rose 0.9 percent for the month and 11 percent year over year. Private nonresidential spending dipped 1.3 percent for the month, but rose 11 percent year over year.

Figure 10: U.S. Construction Spending, February 2015 to February 2016
Year-over-Year Percent Change

Residential Improvement spending (Figure 11) is estimated to be $153,148 million in February 2016, a figure slightly higher than the three-month average of $152,380 million, and 6.4 percent higher than the same month a year ago. Home and equity prices in the first quarter have strengthened, encouraging homeowners to increase home improvement spending. According to the Joint Center for Housing Studies of Harvard University, growth in home improvement and repair spending is expected to increase 8.6 percent by the end of 2016.
Figure 11: Residential Improvement Spending and ASID Billing Index, February 2015 to February 2016
The labor market continues to improve at a steady pace. Private payrolls increased by 195,000 in March, matching its three-month average. The unemployment rate notched up to 5 percent in March, and average hourly earnings increased by 0.3 percent, bringing the year-over-year gain to 2.3 percent. As shown in Figure 12, architectural services job growth tapered in the first two months of the year, and interior design job growth reflects the first year over year decline since early 2011.

Beginning in November 2010, The American Society of Interior Designers (ASID) launched its business performance index. The ASID survey, conducted monthly, is designed to provide a unique perspective on current and future business conditions for the interior design industry nationally and regionally for all firm sizes. A total of 300 firms participate in this program. Firms included in this survey primarily offer interior design services. While many are interior design only firms, panelists report from architectural firms, engineering firms, and other related enterprises. Panelists are asked to report on their current billings relative to the previous months, and to report on recent business inquires. A business sentiment question regarding how general business conditions, for the entire economy, will be six-months from now is also asked. 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).