Third Quarter
July – September 2016

The ASID Interior Design Billings Index
Third quarter showed positive momentum for design industry.

September’s ASID Interior Design Billings Index (IDBI) value slipped to a score 54.0 from June’s score of 55.9 but remains in expansionary territory. The September index is stronger than its three-month moving average of 52.5, indicating positive momentum and favorable business conditions. Scores above 50 indicate expansion, while scores below 50 indicate industry contraction. The last IDBI score below 50 was recorded in December 2015. The new project inquiry rate increased to a score of 59.2, slightly above its June score of 58.2.

Demand for interior design services increases for all size cohorts.

Design firms of all sizes enjoyed a positive billings upturn in the third quarter.

Interior design firms in the South lead billings growth, while firms in the Midwest and Northeast rebound.

Interior design firms in the South, Midwest, and Northeast ended the third quarter on good footing. Firms in the South continued a string of positive growth while firms in the Midwest and Northeast rebounded nearly eight points during the same three-month period. Design firms in the West reported declining billings (IDBI scores of under 50) in the third quarter as the IDBI score dropped 14 points.

Billing results are positive across all market specializations.

Design firms specializing in single-family and multifamily residential sectors have lost some momentum from their high IDBI scores in February and March, recording scores of 55 and 50 for September. Commercial sector interior design firms have rebounded from the disappointing business conditions of the winter months and now report three-month moving average IDBI scores of 54 (Commercial) and 53 (Institutional).

Six Month Outlook – Stronger Business Conditions Expected.

The design industry continues to expect favorable future outcomes. The six-month business conditions index score of 59 for September edged higher than the score of 57 reported for June. The consistency of these scores (above 50) over twelve months supports continued expansion for the design industry.
The labor market continues to improve at a slightly slower pace.
U.S. payroll employment rose by 156,000 in September. The employment expansion is now in its seventh year and consequently, job gains have moderated compared with the last two years. The unemployment rate edged higher to five percent as more workers stepped into the labor force. Architectural services job growth tapered in the first seven months of the year compared to the same period a year ago. Interior design job growth in 2016 shows four of the eight months with year over year decreases in individual employment.

Construction spending softened mid-year.
Total construction spending pulled back in the summer months. The slump in spending momentum was evident in residential, nonresidential, and public spending.

According to Jack Kleinhenz, ASID economist:
The U.S. economy, with its 2.9 percent increase in economic activity during the third quarter, appears to have pulled out of the weak cycle of growth that began in late 2015 and continued through the second quarter of 2016. The economy is expected to build momentum in the consumer and housing sectors. This turnaround is good news and a key factor that supports the positive outlook reported by ASID panelists.
ASID Survey: Third quarter showed continued positive momentum for design industry. September’s ASID IBDI value slipped to a score of 54.0 from June’s score of 55.9 but remains in expansionary territory. The September index is stronger than its three-month moving average of 52.5, indicating positive momentum and favorable business conditions. The last score below 50 was recorded in December 2015. The new project inquiry rate increased to a score of 59.2, slightly above its June score of 58.2.

Table 1: Billings and Inquiries, September 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>25%</td>
<td>57%</td>
<td>17%</td>
<td>54.0</td>
</tr>
<tr>
<td>How do new project inquiries* compare to the previous month?</td>
<td>34%</td>
<td>49%</td>
<td>16%</td>
<td>59.2</td>
</tr>
</tbody>
</table>

*calls, emails, interviews, bids, solicitations, RFPs

Figure 1: ASID Interior Design Billings and Inquiries Index, September 2015 to September 2016
While the trend of the AIA three-month index is consistently below that of the ASID IDBI three-month index (Figure 2), both indicate positive third quarter business conditions. The higher IDBI level in part reflects differences in the underlying base of business activities.

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

Design firms of all sizes showed an increase in third quarter billings. 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, September 2016

How were billings for the month of September compared to August?

<table>
<thead>
<tr>
<th>Size of ASID Member Firm</th>
<th>INDEX: June 2015</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole practitioner</td>
<td>51.4</td>
<td>36</td>
</tr>
<tr>
<td>2 to 9</td>
<td>52.8</td>
<td>36</td>
</tr>
<tr>
<td>10 to 24</td>
<td>50.0</td>
<td>5</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, September 2015 to September 2016
Billings by Region

Design firms in the South, Midwest, and Northeast ended the quarter on good footing. Firms in the South registered a third quarter score of 60, continuing a pattern of positive growth. Midwest firms rebounded nearly 12 points during the quarter to a score of 56, while Northeast firms advanced approximately 8 points during the same three-month period. Design firms in the West reported declining billings (IDBI scores under 50) in the third quarter of 2016 as the IDBI score dropped 14 points (Figure 4).

Figure 4: Billings Index by Region-ASID, September 2015 to September 2016

There are regional similarities and differences in comparing the IDBI and AIA indices (Figures 4 and 5). Design and architecture firms located in the South and Midwest have shown growth over the past quarter. Interior designers and architects in the West reported lower billings scores during the third quarter.
On a methodological note, the geographic distribution of September’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 22 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, 16 percent of survey respondents represent 22 percent of all interior design firms in that region.

Table 3: Geographic Representation by Census Region, September 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>22%</td>
<td>15%</td>
</tr>
<tr>
<td>Northeast</td>
<td>16%</td>
<td>22%</td>
</tr>
<tr>
<td>South</td>
<td>32%</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 September 2016 survey results.
Billings by Sector

Figures 6 and 7 illustrate the recent trends in billing performance by market sector. As shown in Figure 6, billings for design firms specializing in single-family and multifamily residential sectors retreated from earlier in the year, posting scores of 55 and 50. The data is not adjusted for seasonality. The design industry mirrors the broader housing and residential construction sectors which showed a softness during the summer months.

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

As shown in Figure 7, business conditions for design firms specializing in the commercial and industrial sectors strengthened as the IDBI’s three-month moving average increased to scores of 54 and 53, respectively.

Figure 7: Commercial and Institutional Sector Billings, September 2015 to September 2016
The design industry continues to expect favorable future outcomes. The six-month business conditions index score of 59 for September edged higher than the score of 57 reported for June. The consistency of these scores over twelve months supports continued expansion for the design industry (Table 4).

The Conference Board’s September expectations sub-index of its consumer confidence measure improved to a score of 87.8 from a downwardly revised score of 86.1, hitting the highest level since October 2015. Labor market expectations improved, but consumers moderated their tone on business conditions and income expectations.

The Dodge Momentum Index fell 2.6 percent during the third quarter to a score of 129.0. This reading comes on the heels of consistent gains over three consecutive months. While the index shows recent volatility, it has trended higher over the last 12 months. According to Dodge Data & Analytics, the favorable trend in planning activity suggests that developers are moving forward despite political and economic uncertainty, which bodes well for nonresidential construction spending.

Table 4: Expectations for Interior Design Business Conditions, September 2016

<table>
<thead>
<tr>
<th>Expectations</th>
<th>ASID</th>
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<tbody>
<tr>
<td>About the same</td>
<td>61%</td>
</tr>
<tr>
<td>Better than they are now</td>
<td>29%</td>
</tr>
<tr>
<td>Worse than they are now</td>
<td>10%</td>
</tr>
<tr>
<td>Business Six-Month Outlook Index</td>
<td>59.2</td>
</tr>
</tbody>
</table>

Figure 8: Six-Month Outlook Comparison ASID, Conference Board, and Dodge Momentum, September 2015 to September 2016
Construction Spending Softened

Total construction spending decreased appreciably in the summer months. The slump in spending momentum was evident with lower readings in residential, nonresidential, and public spending. Total construction spending for August was $1.14 trillion at a seasonally-adjusted rate, 0.7 percent lower than in July and down 0.3 percent from August 2015. Private construction spending, which includes residential, nonresidential, and home improvement, totaled $871.6 billion, a 0.3 percent decrease from a month earlier, but a 1.4 percent rise from a year earlier. Public construction totaled $270.5 billion and continued its decline, down a full 2 percent from July. The weakness in government spending has translated into reduced construction spending, off 8.8 percent from a year earlier.

Residential improvement spending (Figure 10) estimated to be $151,353 million in August 2016, was 1.5 percent higher than the same month a year ago. According to the Joint Center for Housing Studies of Harvard University, the growth in home improvement and repair spending continues to be encouraged by rising home values and tightening for-sale inventories in many markets across the country. The Center expects new highs could be reached in the third quarter of next year.
Figure 10: Residential Improvement Spending and ASID Interior Design Billings Index, August 2015 to August 2016

- Residential Improvements $ millions
- 3-Mo. Moving Average IDBI
Labor Market

U.S. payroll employment rose by 156,000 in September, while the August total was revised up modestly to 167,000. The employment expansion is now in its seventh year and consequently, job gains have moderated compared with the last two years. The unemployment rate edged higher to five percent as more workers stepped into the labor force. As shown in Figure 11, architectural services job growth tapered in the first seven months of the year compared to the same month a year ago. Interior design job growth shows four of eight months of 2016 with year-over-year decreases in individual employment.

Figure 11: Interior Design and Architectural Services Payrolls, August 2013 to August 2016

12 Month Net Change in Employment

Beginning in November 2010, The American Society of Interior Designers 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 sizes of firms. 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, 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 general business conditions, for 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 a score of 50 (above 50 indicates expansion and below 50 contraction).