

THE ASID INTERIOR DESIGN BILLINGS INDEX

2ND QUARTER REPORT
APRIL - JUNE 2017



AMERICAN
SOCIETY OF
INTERIOR
DESIGNERS
RESEARCH



HIGHLIGHTS

Second quarter ASID survey results show positive momentum and an overall positive trend.

Positive billings growth for the interior design industry was reported in June with a score 58.8. Although four points lower than the March ASID IDBI score of 62.8, business conditions remain positive. The June index is weaker than its three-month moving average of 60.8, suggesting industry slowing, but still indicates positive revenue growth.

Strong demand for interior design services across the four size cohorts.

Design firms of all sizes enjoyed positive billings in June. Sole practitioner design firms reported a strong June IDBI score of 57.1, well above its three-month moving average and an indication of ongoing strength. Firms with two to nine employees reported an even stronger score of 63.

ASID firms in all regions report growth during the second quarter.

Design firms across the Midwest, Northeast, and West regions reported billing declines relative to March scores, suggesting softening of business conditions in those regions. Scores ranged from 50 in the Midwest to 57 in the West. All scores are in positive growth territory as they are above 50 or greater. Firms in the South reported a billings score of 66 in June, up from 63 at the end of the first quarter in March.

Billing results are positive across all market specializations, except for the commercial and institutional sectors.

Billings for design firms specializing in single-family and multifamily residential sectors have shown trending gains since December, posting June scores of 58 and 63, well above the low growth floor of 50. Commercial sector interior designers reported declining billings in June when compared with May with a sub-50 score of 47. The same holds true for firms within the institutional sector with an IDBI score of 43.5 in June. Both sectors have three-month moving averages of 51.

Six-Month Outlook: Design industry will remain healthy through the end of the year

Looking forward, the design industry remains optimistic about the near term outlook for business conditions. The six-month business conditions index score of 66.5 for June continues the general quarterly trend of scores in the mid-60's range since December 2016 (63.6). The consistency of these scores (above 50) going back over twelve months suggests continued expansion for the design industry.

The Conference Board's June expectations measure (a sub-index of its overall consumer confidence reporting) slid 1.7 points to 100.6, the lowest level since January 2017. Overall, consumer confidence remains elevated, up 21.5 points from a year ago in June. Employment expectations were mixed in June as fewer jobs are expected in the next several months. Income expectations were generally positive as a growing share expect their incomes to increase.

The Dodge Momentum Index took another step forward in June, increasing 1.1 percent to 141.1 (2000=100) from its revised May reading of 139.6. According to Dodge Data & Analytics, the Momentum Index has exhibited substantial strength since mid-2016, with the institutional and commercial components trading off as the driver of growth on a month-to-month basis.

According to Jack Kleinhenz, ASID economist:

The economy expanded in the second quarter at 2.7 percent, a decent pace after having a tepid 1.2 percent growth in the first quarter. Residential investment, which correlates closely with the interior design industry, decelerated in the second quarter, declining nearly 7 percent from its 11.1 percent pace in the first quarter. Residential investment corrected itself in the second quarter after spending was pulled forward because of favorable weather in the first quarter. The overall rising trend in business conditions, as suggested by the ASID survey and other indicators, suggests that design services will remain healthy through the end of 2017.

THE SECOND QUARTER 2017 ASID BUSINESS PERFORMANCE SURVEY REPORT

ASID Survey: Second quarter showed continued positive momentum for design industry

Positive billings growth continued in June with a score of 58.8, although the March ASID IDBI score registered four points higher with a score of 62.8. The June index is weaker than its three-month moving average of 60.8, indicating slowing, but still positive, revenue growth (Score of 50 or above). Of respondents, 83 percent indicated an increase or the same level of billings from March. The June new project inquiry rate rose to 61.9, up from a March score of 58.0.

Table 1: Billings and Inquiries

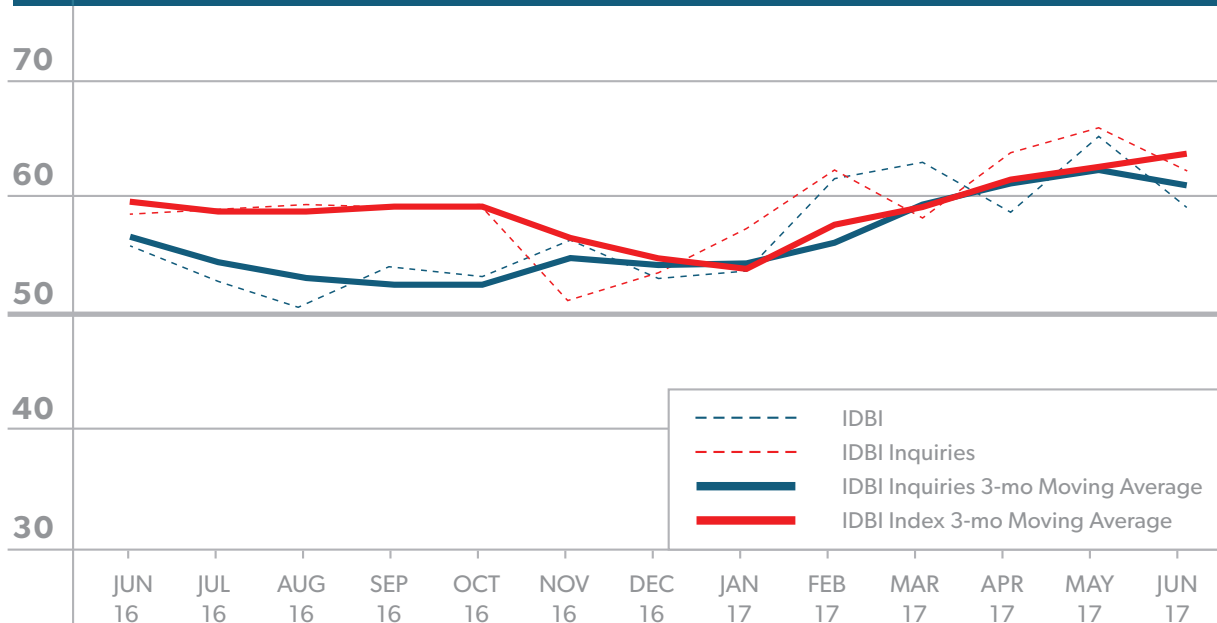
JUNE 2017

| Question to ASID Survey Participant | Significantly increased (up 5% or more) | About the same | Significantly decreased (down 5% or more) | Index |
|--|---|----------------|---|-------|
| How do billings compare to previous month? | 34% | 49% | 16% | 58.8 |
| How do new project inquiries* compare to previous month? | 35% | 45% | 13% | 61.9 |

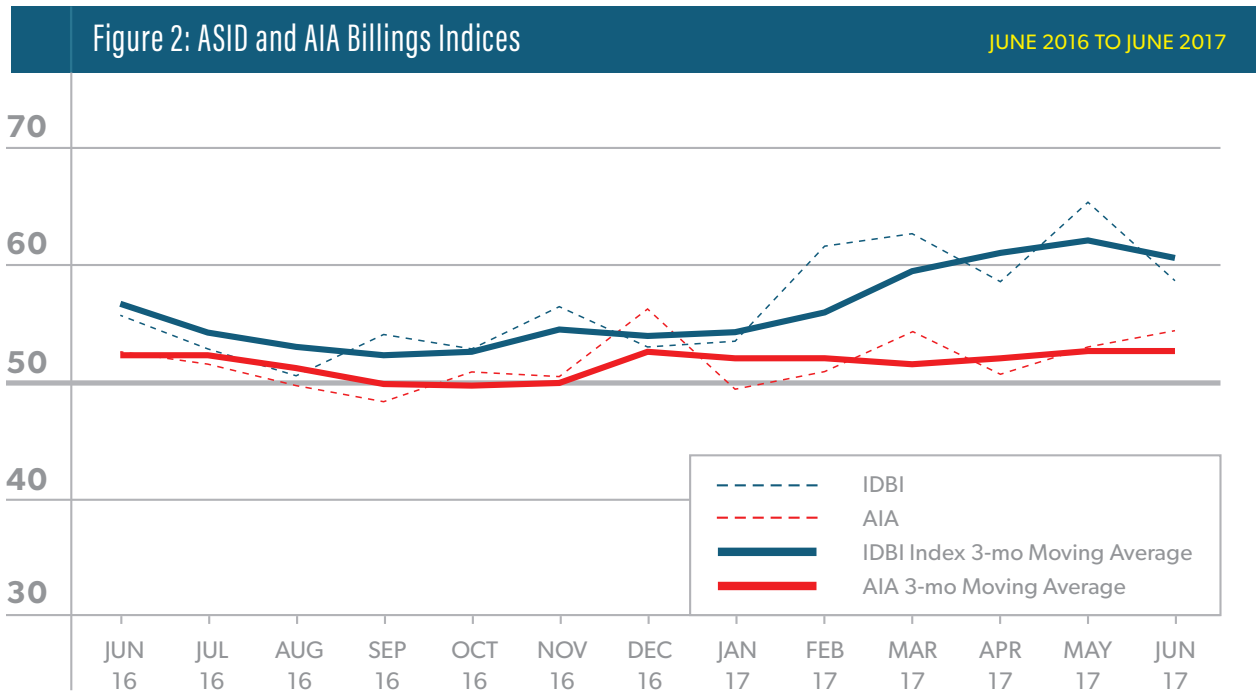
*calls, emails, interviews, bids, solicitations, RFP

Figure 1: ASID Billings and Inquiries Index

JUNE 2016 TO JUNE 2017



While the trend of the AIA three-month index is consistently below that of the ASID IDBI three-month index (Figure 2), both readings indicate positive second-quarter business conditions. (Any score above 50 indicates an increase in billings). The higher IDBI level in part reflects differences in the underlying base of business activities.



BILLINGS BY FIRM SIZE

Design firms of all sizes enjoyed positive billings in June. Sole practitioner design firms reported a strong June IDBI score of 57.1, well above its three-month moving average and an indication of ongoing strength. Firms with two to nine employees reported an even stronger score of 63. Figure 3 shows the volatility of these series. (Figure 3)

Table 2: Billings by Size of Firm

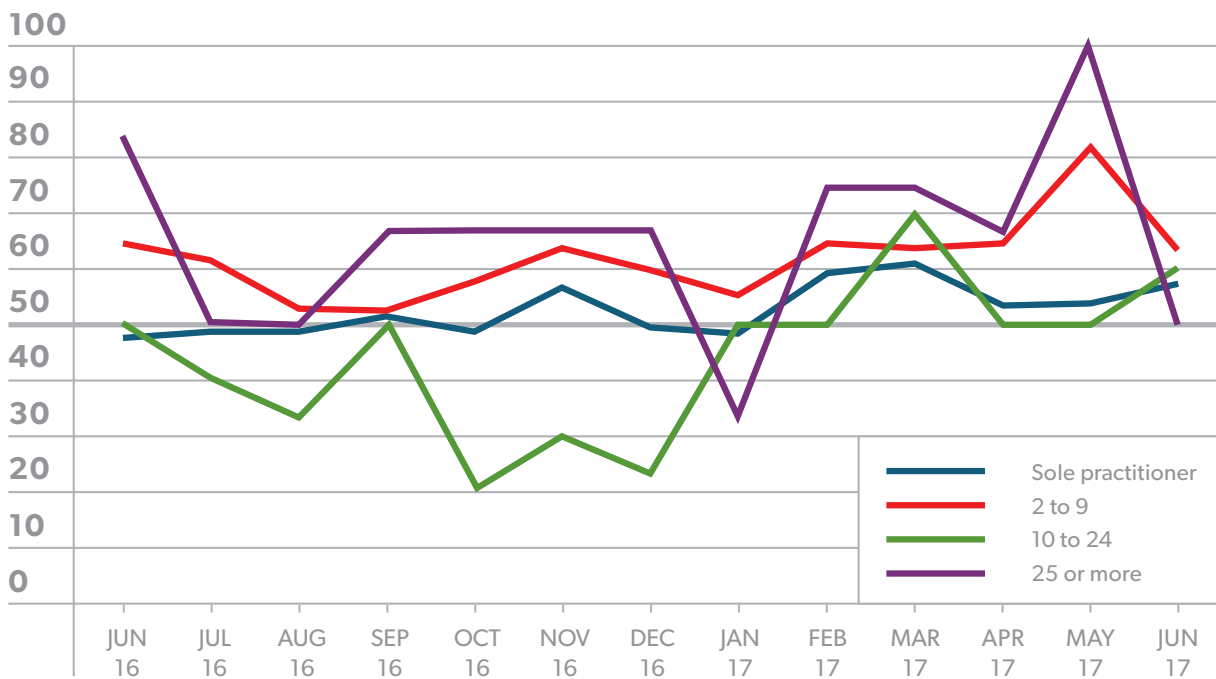
JUNE 2017

How do you estimate billings were for the month of June compared to May?

| Size of ASID Member Firm | INDEX: June 2017 |
|--------------------------|------------------|
| Sole practitioner | 57.1 |
| 2 to 9 | 63.3 |
| 10 to 24 | 60.0 |
| 25 or more | 50.0 |

Figure 3: Billings by Size of Firm

JUNE 2016 TO JUNE 2017

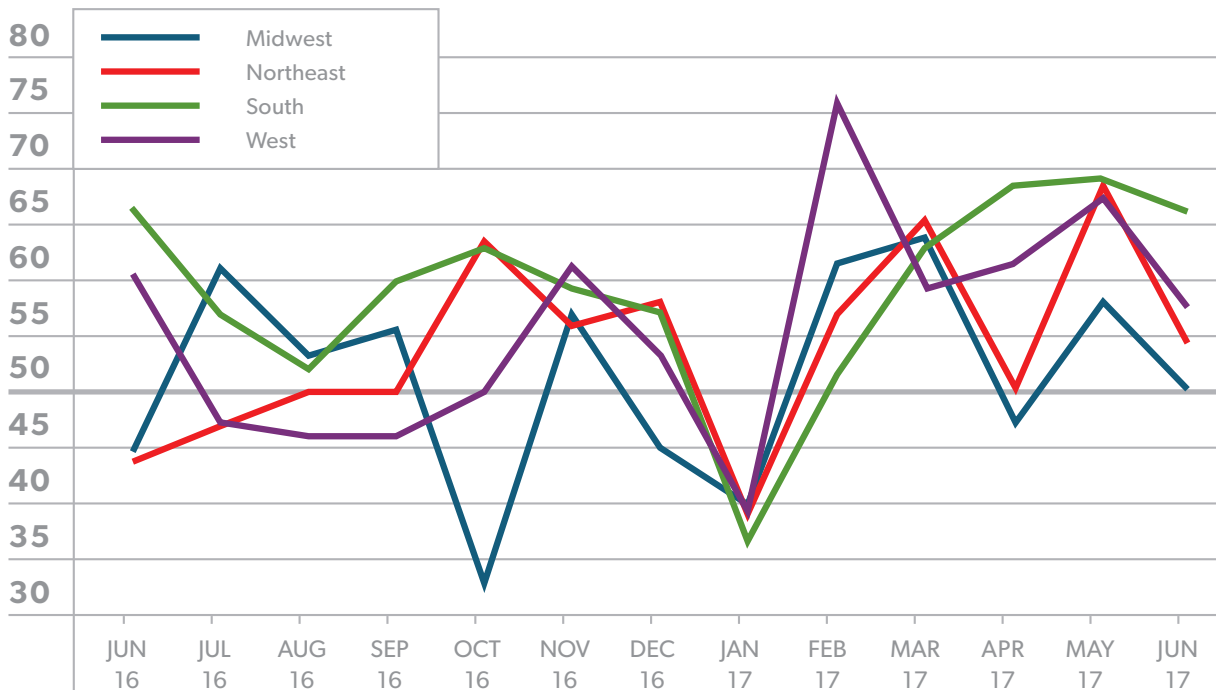


BILLINGS BY REGION

Design firms across the Midwest, Northeast, and West regions reported billing declines relative to March scores, suggesting softening of business conditions in those regions. Scores ranged from 50 in the Midwest to 57 in the West. All scores are in positive growth territory as they are above 50. Firms in the South reported a billings score of 66 in June, up from 63 at the end of the first quarter in March. (Figure 4)

Figure 4: Billings Index by Region - ASID

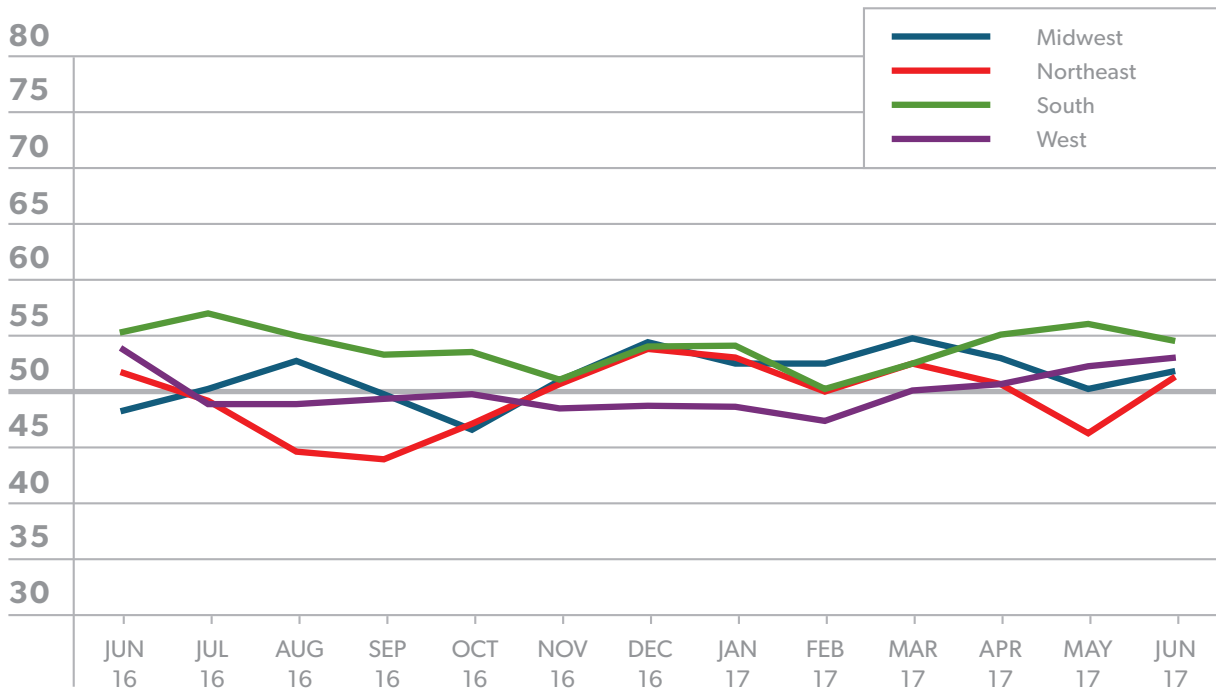
JUNE 2016 TO JUNE 2017



Comparing the AIA and IDBI scores (Figures 4 and 5), both had scores at or above 50 across all regions. Architecture and interior design firms in the Midwest and Northeast reported a slowing growth rate during the second quarter but maintained scores of 50 or above. In the South, both professional industries reported sales rate growth over the quarter. Firms in the West region saw a split; AIA firms reported a sales rate increase while design firms reported a reduction in sales rate growth over the same period.

Figure 5: Billings Index by Region - AIA

JUNE 2016 TO JUNE 2017



On a methodological note...the geographic distribution of June ASID respondents closely mirrors the geographic distribution of all interior design firms as shown in Table 3.

Table 3: Geographic Representation by Census Region

JUNE 2017

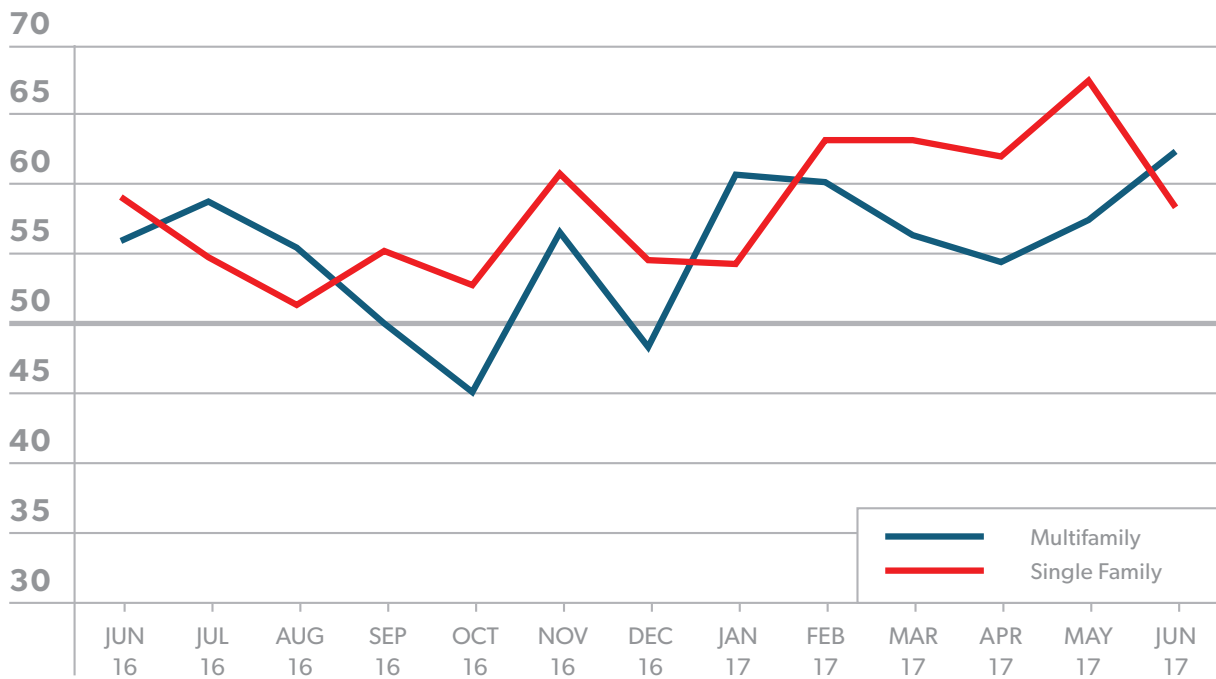
| Census Region | ASID Survey Respondents | Distribution of Interior Design Population |
|---------------|-------------------------|--|
| Midwest | 17% | 15% |
| Northeast | 18% | 22% |
| South | 37% | 38% |
| West | 28% | 25% |
| Total | 100% | 100% |

BILLINGS BY SECTOR

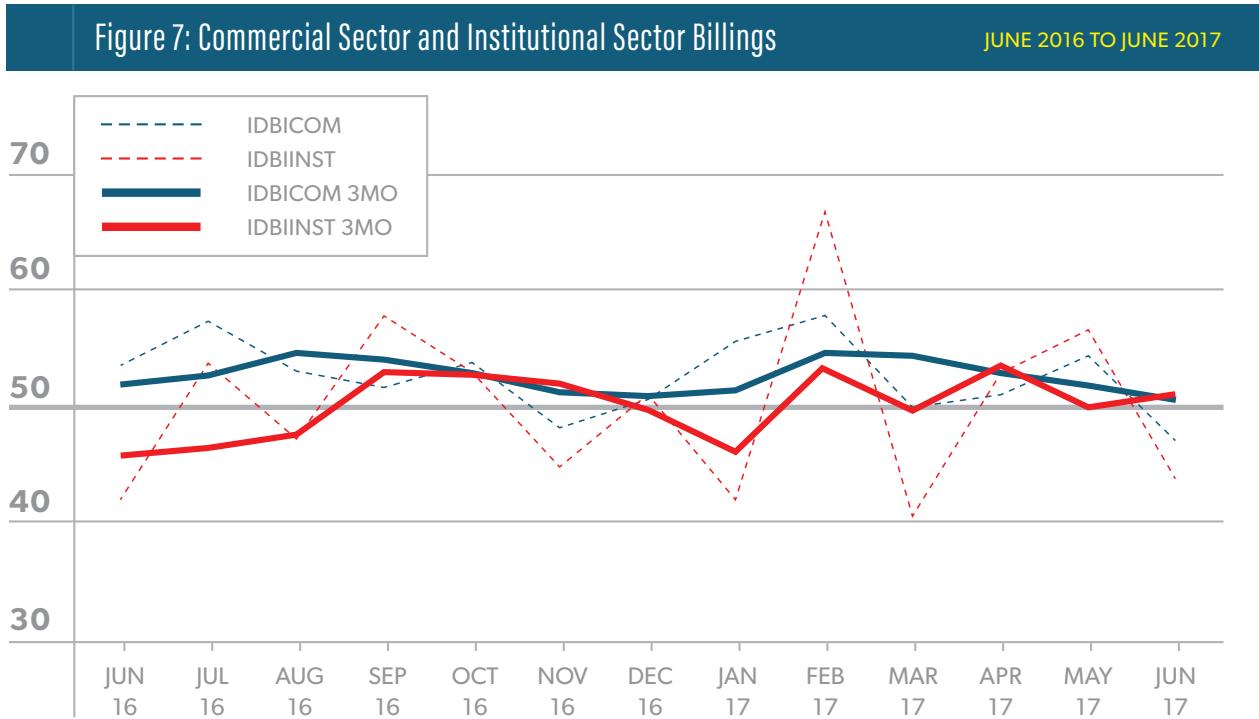
Figures 6 and 7 illustrate the recent trends in billing performance by market sector. As shown in Figure 6, billings for design firms specializing in single-family and multifamily residential sectors have shown trending gains since December, posting scores of 58 and 63, well above the low growth floor of 50. Readings may include seasonal factors at work and the data are not adjusted for seasonality.

Figure 6: Residential Sector Billings

JUNE 2016 TO JUNE 2017



As shown in Figure 7, commercial sector interior designers reported declining June billings when compared to May, with a sub-50 score of 46.7. The same holds true for firms within the institutional sector who report a June IDBI score of 43.5. Both sectors have three-month moving averages of 51.



SIX-MONTH OUTLOOK: DESIGN INDUSTRY WILL REMAIN HEALTHY THROUGH THE END OF THE YEAR

Looking forward, the design industry remains optimistic about the near term outlook for business conditions. The six-month business conditions index score of 66.5 for June continues the general quarterly trend of scores in the mid-60's range since December 2016 (63.6). The consistency of these scores (above 50) going back over twelve months suggests continued expansion for the design industry.

The Conference Board's June expectations measure (a sub-index of its overall consumer confidence reporting) slid 1.7 points to 100.6, the lowest level since January 2017. Overall, consumer confidence remains elevated, up 21.5 points from a year ago in June. Employment expectations were mixed in June as fewer jobs are expected in the next several months. Income expectations were generally positive as a growing share expect their incomes to increase.

The Dodge Momentum Index took another step forward in June, increasing 1.1 percent to 141.1 (2000=100) from its revised May reading of 139.6. According to Dodge Data & Analytics, the Momentum Index has exhibited substantial strength since mid-2016, with the institutional and commercial components trading off as the driver of growth on a month-to-month basis.

The overall rising trend across these indicators continues to suggest that design services will remain healthy through the end of the year.

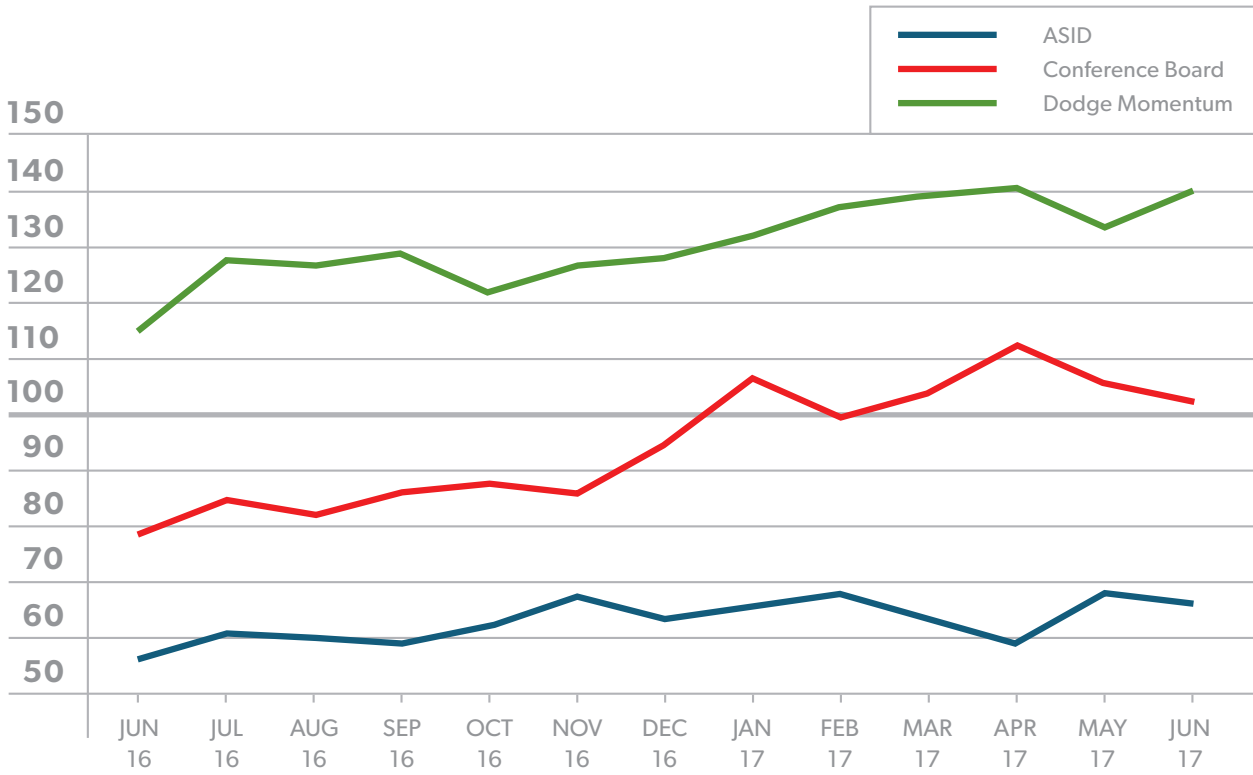
Table 4: Expectations for Interior Design Business Conditions

JUNE 2017

| Expectations | ASID |
|----------------------------------|------|
| About the same | 54% |
| Better than they are now | 39% |
| Worse than they are now | 6% |
| Business Six-month Outlook Index | 66.5 |

Figure 8: Six-Month Outlook Comparison - ASID, Conference Board, and Dodge Momentum

JUNE 2016 TO JUNE 2017

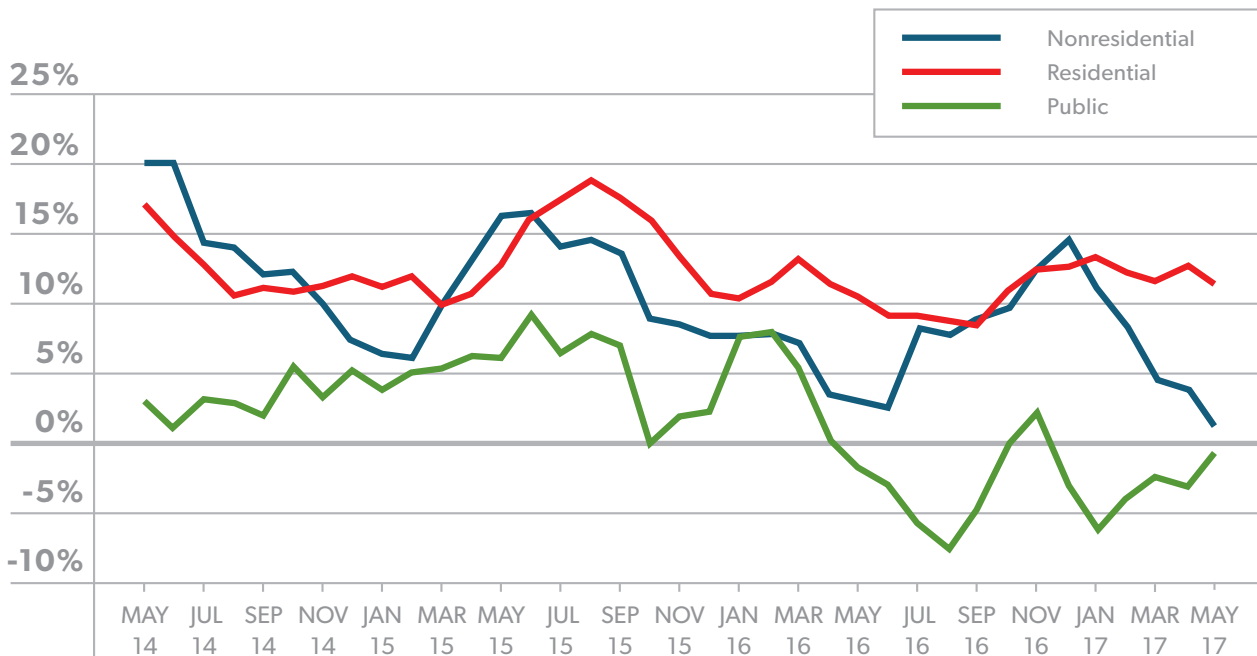


CONSTRUCTION SPENDING SHOWS STRONG GAINS

Total construction spending for May was \$1.23 trillion, unchanged from March but 4.5 percent higher than in May 2016. The weak monthly reading is directly attributed to weak private residential spending. Private non-residential construction continues to lose steam while public spending posted a solid May number, offsetting some of the apparent weakness.

Figure 9: U.S. Construction Spending -
Year-over-year Percent Change

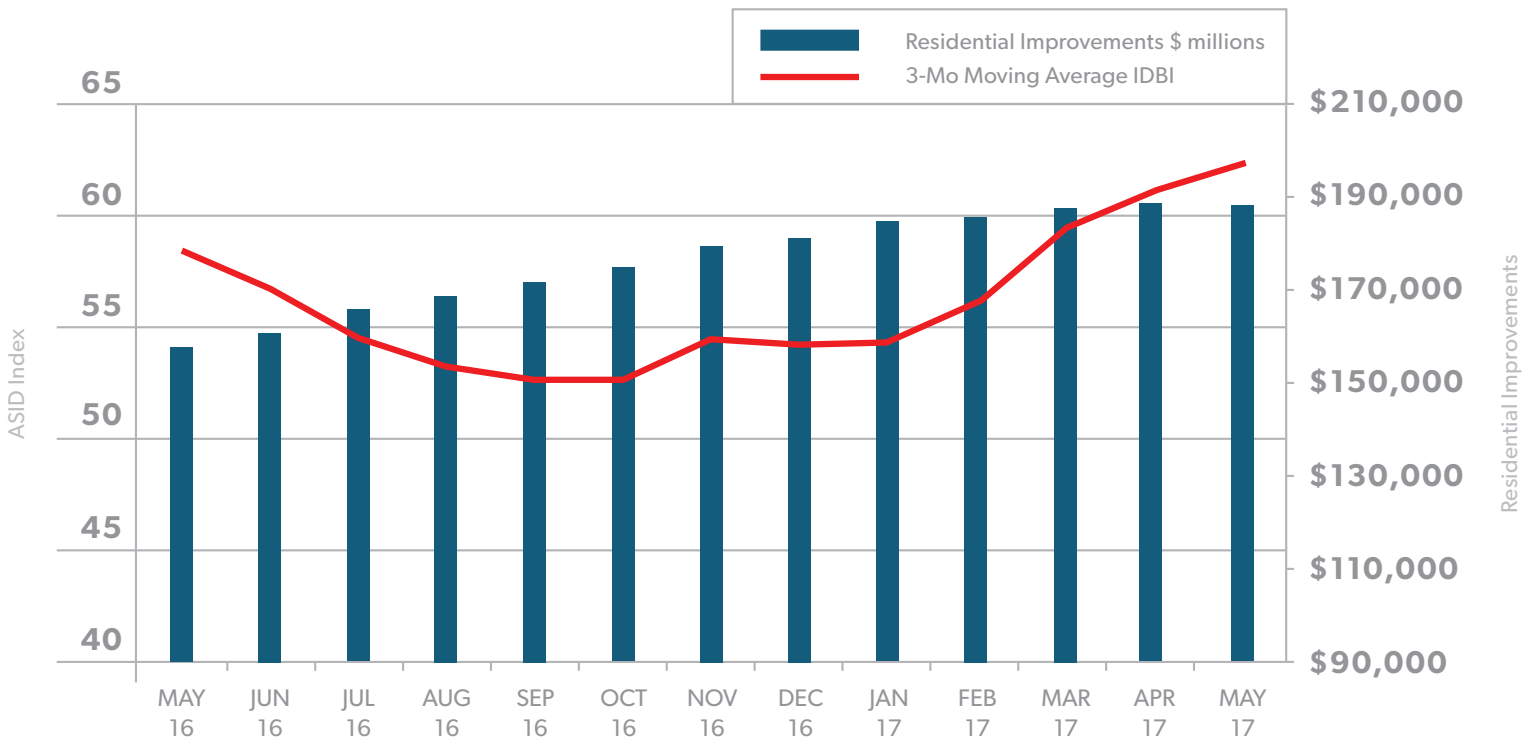
MAY 2014 TO MAY 2017



Residential improvement spending (Figure 10) amounted to \$187,768 million in May, 19.5 percent higher than the same month a year ago. According to the Joint Center for Housing Studies of Harvard University, a healthy and stable growth in home improvement and repair spending is anticipated for the remainder of the year and into the first half of 2018. The center projects that annual increases in remodeling expenditures will soften somewhat moving forward, but will remain at or above 6.0 percent through the second quarter of 2018.

Figure 10: Residential Improvement Spending and ASID Billings Index

MAY 2016 TO MAY 2017

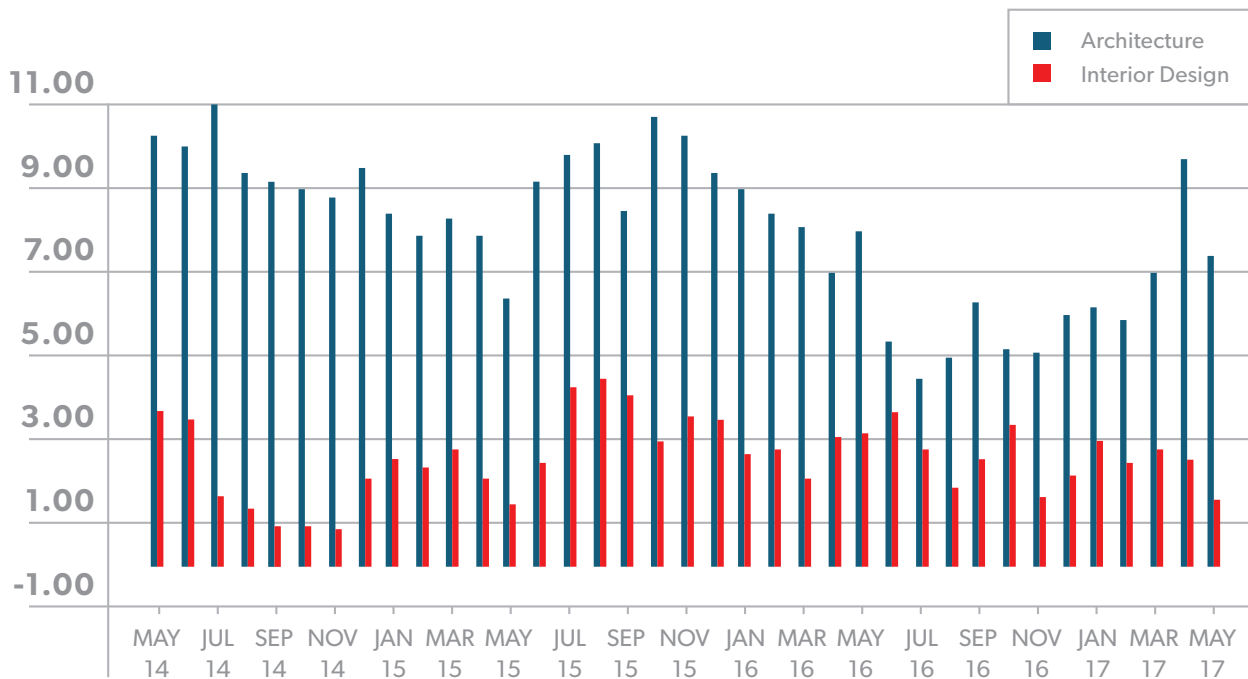


LABOR MARKET

June payrolls increased by 222,000 jobs, registering a three-month moving average increase of 194,000 jobs, a pace that may not be sustainable for a long period as it is faster than the growth of working-age entrants to the job market. June's unemployment rate edged up a notch to 4.4 percent due to an increase in the number of people pulled back into the labor force who were not previously looking for a job, rather than weaker conditions. The Employment Cost Index, the measure the Fed looks at closely for wage pressures in the U.S. labor market, remained modest. Following a cycle-high annual pace of 2.6 percent, private sector wages and salaries dipped to a 2.4 percent year-over-year pace. The underlying trend for wage growth is headed in the right direction as the labor market is tightening, but still has room to improve. As shown in Figure 11, architectural and interior design services job growth continues with steady monthly net gains in jobs for both professions since spring 2016.

Figure 11: Interior Design and Architectural Services Payrolls, 12 Month Net Change in Employment

MAY 2014 TO MAY 2017



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 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 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 inquiries. 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 50 percent (above 50 indicates expansion and below 50, contraction).