THE ASID
INTERIOR DESIGN
BILLINGS INDEX

3RD QUARTER REPORT
JULY - SEPTEMBER 2017
Third quarter ASID survey results show positive, but cooling trend

The American Society of Interior Designers’ (ASID) Interior Design Billings Index (IDBI) shows positive growth in billings for September with a score of 55.6, while the June ASID IDBI score registered slightly higher at 58.8. The September index is weaker than its three-month moving average of 56.2, indicating a slowing of positive revenue growth.

Third quarter demand for Interior Design services varied across the four size cohorts

Sole practitioner design firms reported a strong September IDBI score of 53.6, indicating ongoing strength. Firms of larger than 25 or fewer than 10 employees also reported growth in month over month billings. Firms employing between 10 and 24 workers however, reported declining billings for the quarter.

Billings’ growth differs across regions for interior design services

Only design firms in the Midwest showed billing increases relative to second quarter scores. Other regions report a softening if not an outright decline in billings. Scores ranged from 62 in the South (still positive month over month) to 42 in the West. The IDBI score for design firms in the West indicates declining month over month billings for the region.

Third quarter billing results are positive for residential design services but not for commercial and institutional design services

Billings for design firms specializing in single-family and multi-family residential sectors have shown trending gains since December 2016, posting scores of 55.6 and 57 in September. Commercial sector interior designers have reported slowing billings since February 2017. The commercial IDBI moving average reported in September was 47.7, indicating that billings declined from August to September for these respondents. Institutional markets fell to an IDBI score of 47.3, a sub-50 score that indicates a month over month billings decline.
Six-month outlook: Stronger business conditions expected

Looking forward, the design industry remains optimistic about the near term outlook for business conditions. The six-month business conditions index score of 58.6 for September is well above the 50-level and indicates continued buoyancy.

The ASID six-month interior design business conditions index, the Conference Board’s expectations index, and the Dodge Momentum index, present a mixed assessment of the future outlook. However, by all accounts, the economy remains on strong footing despite weather related hiccups.

Hurricanes distorted the employment situation in September

U.S. payroll employment declined by 33,000 jobs in September. Hurricanes Harvey and Irma distorted the employment situation. The unemployment rate declined to 4.2 percent, but this too was likely because of the inability to complete the sample survey of the households in the affected areas. Average hourly earnings rose by 0.5 percent in September, bringing the year-over-year gain to 2.9. Based on the experience of previous hurricanes, employment figures are likely to undergo dramatic revisions. Architectural and interior design services job growth continues, with monthly net gains in jobs for both professions since spring 2016.

Construction spending showing strong gains in 2017

Construction spending rebounded in August, increasing 0.5 percent from July. However, July’s reading was revised downward to a 1.2 percent month-to-month decline (previously a 0.6 percent m-o-m decline). U.S. construction spending in August totaled $1.22 trillion and is running 4.7 percent ahead of last year on a year-to-date basis.

According to Jack Kleinhenz, ASID economist:

Over the next few months, the economy is expected to continue its “Steady-Eddie” performance, with growth edging above 2 percent. The effects of the hurricanes could cause a short-term setback in third quarter economic growth, but the storms will not knock the economy off track since it is riding on solid fundamentals for consumer spending, the housing market, and business investments. Stronger growth in overall spending should provide a base for continued spending on design services.
**ASID Survey:** Third quarter showed increased billings for the design industry

Positive growth in billings was reported in September with an IDBI score of 55.6. The June ASID IDBI score registered only slightly higher at 58.8. The September index is weaker than its three-month moving average of 56.2, indicating a slowing of still positive revenue growth. IDBI scores above 50 indicate industry expansion, while scores below 50 denote contraction. 83 percent of respondents indicated an increase or the same level of billings from the second quarter. The September new project inquiry rate declined to 54.3, down from a second quarter score of 61.9.

<table>
<thead>
<tr>
<th>Table 1: Billings and Inquiries</th>
<th>SEPTEMBER 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question to ASID Survey Participant</td>
<td>Significantly increased (up 5% or more)</td>
</tr>
<tr>
<td>How do billings compare to previous month?</td>
<td>28%</td>
</tr>
<tr>
<td>How do new project inquiries* compare to previous month?</td>
<td>30%</td>
</tr>
</tbody>
</table>

*calls, emails, interviews, bids, solicitations, RFP
While the trend of the American Institute of Architects (AIA) three-month index is consistently below that of the ASID IDBI three-month index (Figure 2), both readings are indicate positive second quarter business conditions. The higher IDBI level in part reflects differences in the underlying base of business activities.
While design firms of other sizes, large and small, enjoyed positive billings in September, firms employing between 10 and 25 workers reported a low IDBI of 20. Taken from a small sample, no firms of this size reported an increase in billings. However, sole practitioner design firms reported a strong September IDBI score of 53.6, indicating ongoing strength. Figure 3 shows the volatility of these series.

### Table 2: Billings by Size of Firm

<table>
<thead>
<tr>
<th>Size of ASID Member Firm</th>
<th>INDEX: September 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole practitioner</td>
<td>53.6</td>
</tr>
<tr>
<td>2 to 9</td>
<td>63.6</td>
</tr>
<tr>
<td>10 to 24</td>
<td>20.0</td>
</tr>
<tr>
<td>25 or more</td>
<td>75.0</td>
</tr>
</tbody>
</table>

### Figure 3: Billings by Size of Firm

SEPTEMBER 2016 TO SEPTEMBER 2017
Three of the four regions – Northeast, South, and West, all reported lower IDBI scores in September than June. Interior design firms in the West endured the most, registering an IDBI score of 42 which is in contractionary billings territory (Figure 4). This low score mirrors the depressed regional scores reported by architects over the same period (Figure 5). Firms in the Midwest reported increased billings with an advancing IDBI score of 57 in September versus 50 in June.

Architecture firms across the country reported billings scores above 50 with the exception of firms in the West. Similar to interior design firms located in the West region, AIA firms reported a decline in billings (48.8), with indices falling below 50 (Figure 4 and 5).
On a methodological note, the geographic distribution of September ASID respondents closely mirrors the geographic distribution of all interior design firms as shown in Table 3. Respondents slightly underrepresent the Northeast and overrepresent the West.

<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>17%</td>
<td>15%</td>
</tr>
<tr>
<td>Northeast</td>
<td>18%</td>
<td>22%</td>
</tr>
<tr>
<td>South</td>
<td>37%</td>
<td>38%</td>
</tr>
<tr>
<td>West</td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
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 multi-family residential sectors have shown trending gains since December 2016, posting September scores of 55.6 and 57, well above the low growth floor of 50. Readings may include seasonal factors at work and the data are not adjusted for seasonality. The National Association of Realtors (NAR) noted that continued supply shortages combined with steadily increasing prices weighed down contract signings. Overall, the supply shortage in the housing market could weigh on pending and existing home sales over the near term, and may affect interior design services.
As shown in Figure 7, commercial sector interior designers have reported slowing billings since February 2017. The commercial IDBI three-month moving average reported in September was 47.7. This score indicates that billings declined from August to September for these respondents. Institutional markets fell to an IDBI of 47.3, a sub-50 score indicating month over month billings decline.
SIX-MONTH OUTLOOK: DESIGN INDUSTRY CONTINUES TO EXPECT FAVORABLE FUTURE OUTCOMES

While the IDBI six-month expectations index score of 58.6 is lower than those in the early months of 2017, recent monthly scores remain elevated, indicating panelists continue to be optimistic about the future.

The Conference Board’s September expectations sub-index of its overall consumer confidence measure increased 2.6 points from June. Consumers appear to be upbeat about their expectations for their incomes over the next six months. The regional details suggest that Hurricane Harvey likely weighed on sentiment in September. However, since the hurricanes hit only Texas and Florida, the impacts were not felt directly by most Americans and confidence has remained strong.

September’s Dodge Momentum index dropped nearly 20 points since June to 116.4 (2000=100). The Momentum index is a monthly measure of the initial report for nonresidential building projects in planning, and has been shown to lead construction spending for nonresidential buildings by a full year. According to Dodge Data & Analytics, while the overall Momentum index has lost ground for four consecutive months, this should not be seen as a predictor of a turn in building markets. Economic growth remains solid, and building market fundamentals are supportive of further growth in construction activity.

While details of the above indicators present a mixed assessment of the future outlook, by all accounts the economy remains on strong footing despite weather related hiccups. Stronger growth in overall spending is expected in the broader economy, which should provide a base for spending on design services to continue over the next six months.

<table>
<thead>
<tr>
<th>Expectations</th>
<th>ASID</th>
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<tbody>
<tr>
<td>About the same</td>
<td>65%</td>
</tr>
<tr>
<td>Better than they are now</td>
<td>26%</td>
</tr>
<tr>
<td>Worse than they are now</td>
<td>9%</td>
</tr>
<tr>
<td>Business Six-month Outlook Index</td>
<td>28.6</td>
</tr>
</tbody>
</table>
Figure 8: Six-Month Outlook Comparison – ASID, Conference Board, and Dodge Momentum

SEPTEMBER 2016 TO SEPTEMBER 2017

- ASID
- Conference Board
- Dodge Momentum
Construction spending rebounded in August, increasing 0.5 percent from July. However, July’s reading was revised downward to a 1.2 percent month-to-month decline (previously 0.6 percent m-o-m decline). U.S. construction spending in August totaled $1.22 trillion and is running 4.7 percent ahead of last year on a year-to-date basis. Private construction is buoying total construction outlays as public spending continues to be less. Private residential construction spending, which includes residential, nonresidential, and home improvement, was $520.9 billion, increasing 0.4 percent from July’s total and 11.6 percent higher than August 2016. Private nonresidential construction spending was $433.9 billion, a 0.5 percent increase from July, but down 2.5 percent from August 2016.

In the coming months, spending data for construction is likely to be impacted due to the hurricanes, delaying projects as rebuilding and restoration is underway.

Residential improvement spending (Figure 10) amounted to $194,837 million in August, 3 percent higher than May, but has averaged 8 percent growth the last three months on a year-over-year basis. According to the Joint Center for Housing Studies of Harvard University, rising house prices and incomes, an aging housing stock, and a pickup in household growth are all contributing to today’s strong home improvement market.

1 According to the Census, data on total construction spending are only available at the national level. Annual estimates of private nonresidential construction spending by state show that Florida and Texas together represented about 22% of U.S. private nonresidential construction spending in 2016.
Figure 10: Residential Improvement Spending and ASID Billings Index

AUGUST 2016 TO AUGUST 2017

Residential Improvements $ millions
3-Mo Moving Average IDBI

ASID Index

Residential Improvements

AUG 16  SEP 16  OCT 16  NOV 16  DEC 16  JAN 17  FEB 17  MAR 17  APR 17  MAY 17  JUN 17  JUL 17  AUG 17

$90,000  $110,000  $130,000  $150,000  $170,000  $190,000  $210,000

55  60  65
Labor Market

U.S. payroll employment declined by 33,000 jobs in September. Hurricanes Harvey and Irma distorted the employment situation. Jobs in the leisure/hospitality industry, most likely in Florida, created most of the downdraft, declining by 111,000. The unemployment rate declined to 4.2 percent but this too was likely because of the inability to complete the sample survey of the households in the affected areas. Average hourly earnings rose by 0.5 percent, bringing the year-over-year gain to 2.9 percent and outside the recent range of around 2.5 percent. Based on the experience of previous hurricanes, employment figures are likely to undergo dramatic revisions. As shown in Figure 11, architectural and interior design services job growth continues, with monthly net gains in jobs for both professions since spring 2016. Given the decelerating growth in billings, it is not surprising that there is a slower pace of net new jobs in the design industry.

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

2 Monthly National nonfarm employment estimates do not include Puerto Rico or the U.S. Virgin Islands, thus current reliable statistics on these areas are unavailable.
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 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 50 percent (above 50 indicates expansion and below 50, contraction).