An increasing number of respondents reported a pull back in business conditions since mid-2017.

The pace of billings growth dropped during the fourth quarter of 2017, with the December ASID Interior Design Billings Index (IDBI) score dipping to 47.8 from September's score of 55.6 (scores about 50 indicate industry expansion, while those below 50 indicate contraction). The decelerating trend, combined with a sub-par inquiries score of 47.8, suggests that market conditions going into 2018 are somewhat indefinite. The December index is weaker than its three-month moving average of 52.3, indicating a continuation of declining scores reported since mid-2017.

Fourth quarter demand for interior design services varied across the four size cohorts.

Sole practitioner design firms reported a modest decline in quarterly performance on a three-month moving average, but remained in expansionary territory in the fourth quarter. Slightly larger firms with two to nine employees maintained a positive trend and showed a three-month moving average of 58. Larger firms of 10 to 25 employees fared less well during the year, reporting sub-50 scores in five out of 12 months in 2017.

Billings growth varies across regions for interior design services.

Three of the four regions, Midwest, South, and West all reported strong (greater than 50) three-month moving average IDBI scores in December, finishing the year with strong billings growth. Interior design firms in the Northeast, however, experienced a notable fall off in business, registering an IDBI score of 40 at the end of the fourth quarter.

Business conditions for the year were positive for residential design services, but commercial and institutional design services struggled.

Design firms specializing in single-family and multifamily residential projects reported growth throughout the year, posting scores above 50 every month. The exception was December, when firms serving the single-family design market reported an IDBI score of 49.2. Commercial and institutional design firms displayed an uneven and slower paced pattern of billings in 2017. Firms specializing in institutional projects rose to a score of 51.7 in December from 31.7 in September. Although the three-month moving average for institutional design firms was 49.4, and better than its third quarter score, their performance remained in contractionary territory. The December commercial IDBI three-month moving average score was 48.8, up slightly from a September score of 47.7.
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 65.2 for December is well above the 56.8 recorded at the end of the third quarter and indicates continued buoyancy. The ASID six-month interior design business conditions index, the Conference Board’s expectations Index, and the Dodge Momentum Index remain at elevated levels and signal a positive track for the design and construction industries.

Labor Market Continues to Expand.

U.S. payroll employment in September showed a meager gain of 38,000 jobs, a direct result of hurricanes. The job machine in October and November kicked in, averaging 230,000 additional monthly jobs, but dropped off to 148,000 in December. The unemployment rate was unchanged at 4.1 percent during each of these months. Architectural and interior design services job growth continues with monthly net gains in jobs for both professions.

Construction Spending Showing Strong Gains.

Construction spending totaled $1.257 trillion at a seasonally adjusted annual rate in November, a record level and 0.8 percent higher than the upwardly revised October rate, and 2.4 percent higher than the November 2016 rate. The pickup was driven by increases in both private residential and nonresidential outlays. Public construction spending, meanwhile, registered a small monthly gain after three months of large increases. The data now shows a lift from the resumption of construction in the aftermath of Hurricanes Irma and Harvey.

According to Jack Kleinhenz, ASID economist:

Although the momentum of ASID billings slowed in the last few months of 2017, this should not be a cause for concern as seasonal factors are at work and a similar pattern was apparent in the past. It is important to look at the year as a whole, and all but one month saw IDBI scores in positive territory. The six-month expectations outlook index remains at a very high level, an encouraging sign that current business will improve in the coming months. December’s IDBI score of 65.2 is a significant improvement from the score of 58.6 recorded in September.
**ASID Survey:** Fourth quarter declined, but otherwise, 2017 showed solid billings growth for the design industry.

An increasing number of respondents reported a pull back in business conditions since mid-2017. The decelerating trend combined with a sub-par inquiries score suggests indefinite market conditions going into 2018. Negative growth in billings was reported in December (47.8) relative to September’s positive report of 55.6. The December index is weaker than its three-month moving average of 52.3, indicating a continuation of declining scores reported since mid-2017. Of respondents, 77 percent indicated an increase or the same level of billings from November. A decline in billings was reported by 23 percent of respondents. The December new project inquiry rate declined to a score of 47.8, a drop off from September’s reported rate of 54.3. The sub-50 score reported for inquiries may be an indicator of future billings.

### Table 1: Billings and Inquiries

<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>19%</td>
<td>58%</td>
<td>23%</td>
<td>47.8</td>
</tr>
<tr>
<td>How do new project inquiries* compare to previous month?</td>
<td>23%</td>
<td>49%</td>
<td>28%</td>
<td>47.8</td>
</tr>
</tbody>
</table>

*calls, emails, interviews, bids, solicitations, RFP*
The design industry continued to experience an uneven pattern of growth in 2017 but was headed in the right direction. The average IDBI score of 57.2 was above the average score of 55.6 for 2016 and identical to its 2015 score. While softer performance was reported in the latter half of 2017, business conditions are supportive of healthier growth. The ASID project inquiries scores continued to remain at a very high level in 2017, with a monthly average of 57.2.

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 indicate relatively strong business conditions over the year. (Any score above 50 indicates an increase in billings). The December AIA ABI index was 52.9.
Figure 2: ASID and AIA Billings Indices

DECEMBER 2016 TO DECEMBER 2017

IDBI Index 3-mo Moving Average
AIA 3-mo Moving Average
Looking back at 2017, sole practitioner firms and firms employing less than 10 people consistently reported IDBI scores of 50 or better. This is reflected in Figure 3, which shows the three-month moving average IDBI scores for various firm size categories. Sole practitioners’ billings dipped into declining-revenue territory in December with a score of 48.5, essentially back to where they began the year when a score of 48.3 was recorded. Meanwhile, larger firms reported a more volatile billing pattern during the year, including firms employing between 10 and 24 people that showed sub-50 scores for five months of the year.

How do you estimate billings were for the month of December compared to November?

<table>
<thead>
<tr>
<th>Size of ASID Member Firm</th>
<th>INDEX: December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole practitioner</td>
<td>48.5</td>
</tr>
<tr>
<td>2 to 9</td>
<td>52.0</td>
</tr>
<tr>
<td>10 to 24</td>
<td>30.0</td>
</tr>
<tr>
<td>25 or more</td>
<td>37.5</td>
</tr>
</tbody>
</table>
Sole proprietor design firms and firms employing two to nine employees showed the least volatility in 2017 compared to larger firms. With average monthly IDBI indexes of 55.7 and 62.7 in 2017 respectively, both exceeded comparable scores from 2016. Alternatively, firms with more than 25 employees recorded an average monthly score of 57.3 compared to 68.8 in 2016. Firms with 10 to 24 employees experienced another less than positive performance with an average monthly score of 45.8.
Firms in the Midwest, South, and West reported gains in billings on a three-month moving average basis. December’s monthly reading marked the tenth monthly score during 2017 above the 50 threshold for these regional firms. The Northeast was the only region to record a decline, registering an IDBI score of 40 indicating reduced demand (Figure 4). Architecture firms across the country reported billings scores above 50 with the exception of firms in the Northeast. The low AIA regional score mirrors the downturn by Northeastern interior design professionals for the same period (Figure 5).

Business conditions varied by region in 2017. While regional business conditions showed an erratic trend throughout 2017 (Figure 4) all of the regions registered average monthly scores that exceeded 50: South (58.3), West (57.8), Midwest (53.7), Northeast (52.3). These results clearly indicate that the market for interior design services is driven by regional economic forces.

**Figure 4: Billings Index by Region - ASID**

**3-Mo Moving Average**

DECEMBER 2016 TO DECEMBER 2017
On a methodological note…the geographic distribution of December’s ASID respondents closely mirrors the geographic distribution of all interior design firms as shown in Table 3. The respondents slightly underrepresent the West region and overrepresent the Midwest.

<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>21%</td>
<td>15%</td>
</tr>
<tr>
<td>Northeast</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>South</td>
<td>33%</td>
<td>34%</td>
</tr>
<tr>
<td>West</td>
<td>24%</td>
<td>29%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Figures 6 and 7 illustrate the recent trends in billing performance by market sector. As shown in Figure 6, design firms specializing in single-family and multifamily residential projects reported growth throughout the year, posting scores above 50 every month. The exception was the month of December, as firms serving the single-family design market reported an IDBI score of 49.2. The lower pace of readings at the end of the year may reflect the slower pace of new and existing home sales that occurred at the end of 2017. The National Association of Realtors (NAR) noted that continued supply shortages, combined with steadily increasing prices, weighed down contract signings.
Commercial and institutional design firms displayed an uneven and slower paced pattern of billings in 2017. Firms specializing in institutional projects rose to a score of 51.7 in December from a score of 31.7 in September. Although the three-month moving average for institutional design firms was 49.4 and better than its comparable third quarter score of 47.3, their performance remained in contractionary territory. The December commercial IDBI three-month moving average score was 48.8, up slightly from a September score of 47.7.

During 2017, demand for design firms with single-family specialization showed solid momentum with an annual average IDBI score of 58.1, exceeding the 56.5 score for 2016. The IDBI score for firms providing multifamily services improved with an annual average score of 57.0 as compared to the average score of 54.7 in 2016. The commercial and institutional sectors benefited from stronger demand over the course of the year. While firms faced a variable pattern of commercial business demand throughout 2017, the annual average monthly IDBI score was above 50 at 50.4, and indicated healthy market conditions for commercial design services. Design services for the institutional sector had a more challenging year, reporting declining sales for six out of 12 months and an average IDBI score of 49.4.
SIX-MONTH OUTLOOK: DESIGN INDUSTRY CONTINUES TO EXPECT FAVORABLE FUTURE OUTCOMES

Looking forward, the design industry remains optimistic about the near term outlook for business conditions. The six-month business conditions index score of 65.2 for December is well above the score of 58.6 recorded at the end of the third quarter and indicates continued buoyancy.

The Conference Board’s December expectations sub-index of its overall consumer confidence measure declined from 111 in November to 99.1 in December. This is likely an offset for the sharp gain over the past few months. While the December decline in expectations is at its lowest this year, expectations are still better compared with 2016.

December’s Dodge Momentum Index surged from 112.2 in September to 153.9 in December (2000=100). 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. According to Dodge Data & Analytics, after retreating during the third quarter of 2017, the Momentum Index regained its upward track in the fourth quarter, enabling December’s reading for the Momentum Index to be up 20.9 percent compared to the same month a year ago. The continued strengthening by the Momentum Index in 2017 suggests that nonresidential building construction activity will advance further during 2018.

In sum, these three indicators remain at elevated levels and signal a positive forward track for the design and construction industries.

<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>39%</td>
</tr>
<tr>
<td>Worse than they are now</td>
<td>9%</td>
</tr>
<tr>
<td>Business Six-month Outlook Index</td>
<td>65.2</td>
</tr>
</tbody>
</table>
Figure 8: Six-Month Outlook Comparison - ASID, Conference Board, and Dodge Momentum

DECEMBER 2016 TO DECEMBER 2017

- ASID
- Conference Board
- Dodge Momentum

Graph showing the comparison of three different outlooks between December 2016 and December 2017.
CONSTRUCTION SPENDING SHOWS STRONG GAINS

Construction spending totaled $1.257 trillion at a seasonally adjusted annual rate in November, a record level that is 0.8 percent higher than the upwardly revised October rate, and 2.4 percent higher than the November 2016 rate. The pickup was driven by increases in both private residential and nonresidential outlays. Public construction spending, meanwhile, registered a small monthly gain after three months of large increases. The data now shows a lift from the resumption of construction in the aftermath of Hurricanes Irma and Harvey.

Residential improvement spending (Figure 10) amounted to $196,320 million in November, 9.8 percent higher than November 2016. According to the Joint Center for Housing Studies of Harvard University, 2018 is expected to be another robust one for residential renovations and repairs with growth accelerating as the year progresses.
Figure 10: Residential Improvement Spending and ASID Billings Index

NOVEMBER 2016 TO NOVEMBER 2017

Residential Improvements $ millions
3-Mo Moving Average IDBI

ASID Index

Residential Improvements

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

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

40
45
50
55
60
65
LABOR MARKET

U.S. payroll employment in September showed a meager gain of 38,000 jobs, a direct result of hurricanes. The job machine in October and November kicked in, averaging 230,000 additional monthly jobs, but dropped off to 148,000 in December. The unemployment rate was unchanged at 4.1 percent during each of these months. As shown in Figure 11, architectural and interior design services job growth continues with monthly net gains in jobs for both professions.

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).