HIGHLIGHTS

Second quarter billings weak.
Survey results at the end of the second quarter show a decline from the Q1 end-of-quarter scores. Approximately 20 percent of respondents reported billings growth.

Billings’ growth shows mixed results across size cohorts.
Only small firms with two to nine employees indicated billings in expansionary territory in the second quarter, posting an IDBI score of 53.8. Sole practitioners fell from a March score of 53.2 to a June score of 43.6. Larger firms remained in sub-par territory from March to June, indicating retreating billings over the quarter. Single month June scores for all firm sizes were below the three-month moving average score, perhaps indicating a loss of momentum across the board.

Billings’ growth divided geographically in second quarter.
Interior design firms in the South continued a year-long streak of positive billings growth with a score of 53.6. Billings in the Midwest rose during the second quarter, showing positive billings, growth and a score of 52.4. Firms in the Northeast and West saw a decline in billings over the quarter.

Second quarter billings for multi-family increase but other sectors report declines.
Design firms specializing in single family and multi-family residential projects over the past four quarters have experienced a downward moderating trend, with the single family sector dipping into sub-50 scores during the second quarter. Commercial and institutional billings also fell into sub-50 territory with scores of 44 and 48, an indication of declining billings.
Six-Month Outlook – Stronger Business Conditions Expected.

The design industry remains optimistic about the near term business conditions with 89 percent of survey respondents expecting conditions to be the same or better than they are now. The six-month business conditions index score of 59.6 for June is less than the score of 62.7 for March and 65.2 for December.

While the design industry has registered a softer than expected second quarter, the ASID six-month interior design business conditions index, the Conference Board’s Expectations Index, and the Dodge Momentum Index taken together reflect an improving broader economy that will encourage spending on design services over the next six months.

Labor market continues at solid pace.

The employment market remains solid well into its ninth year of expansion. Employers added 213,000 jobs to payrolls in June as the U.S. job machine continues to generate average net job gains of approximately 200,000 per month (over the past 12 months) despite growing concerns by businesses about a shortage of qualified workers. Architectural and interior design services job growth continues with net gains for both professions and an additional 2,300 jobs in the month of May, the largest gain since November 2017.

Pace of construction spending remains elevated.

U.S. construction spending was $1.31 trillion in May at a seasonally adjusted annual rate, up 4.5 percent from $1.25 trillion in May 2017. The rate of residential construction spending is still on the rise, but capacity constraints are a concern as the search for available labor becomes increasingly difficult. The pace of public construction spending has been especially strong over the last several months, and while the pace of nonresidential construction has been steady, it is sizeably above its growth rate of a year ago.

According to Jack Kleinhenz, ASID economist:

Going forward, the U.S. economy remains on solid ground. Economic fundamentals for the economy and the consumer are in place and consistent with output increasing at a 3 percent annual rate, propelled by the federal fiscal stimulus. Sustained employment gains and household incomes have fueled growth in the consumer spending growth, supporting business investment and further employment gains, and creating an economic virtual cycle. However, while the drag from trade tensions is relatively small, it has increased uncertainty. It is too early and a very complex analysis to measure any short run disruptions.
ASID Survey: Second quarter results indicate a moderation in design services.

Survey results at the end of the second quarter showed a decline from the Q1 end-of-quarter scores. The strong March IDBI score of 58.5 was supported by approximately 30 percent of respondents reporting a significant increase in billings over the previous month. Meanwhile, only 20 percent reported significant increases in billings at the end of Q2 and the IDBI score dropped to 45.9. An IDBI score of less than 50 indicates declining revenues. The June new project inquiry rate declined to 50.0, down from a Q1 score of 56.3.

<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>21%</td>
<td>50%</td>
<td>29%</td>
<td>45.9</td>
</tr>
<tr>
<td>How do new project inquiries* compare to previous month?</td>
<td>25%</td>
<td>50%</td>
<td>29%</td>
<td>50.0</td>
</tr>
</tbody>
</table>

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

Figure 1: ASID Billings and Inquiries Index

JUNE 2017 TO JUNE 2018

Table 1: Billings and Inquiries

JUNE 2018
June’s IDBI index of 45.9 was below its three-month moving average of 48.3, indicating slowing momentum and less than positive business conditions. The AIA June billings index of 51.2 showed steadiness, nearly equaling March’s score of 51.
BILLINGS BY FIRM SIZE

Except for small firms with between two and nine employees, billings growth for the industry decelerated over the past quarter (Fig. 3). Small firms reported a score of 53.8, while sole practitioner firms dropped from 53.2 in March to 43.6 in June, and larger firms continued in a sub-par territory showing a retreat in billings over the quarter. Scores are reported as three-month moving averages. Single month scores for all firms were below the three-month moving average score, indicating a loss of momentum across the board.

Table 2: Billings by Size of Firm

<table>
<thead>
<tr>
<th>Size of ASID Member Firm</th>
<th>INDEX: June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole practitioner</td>
<td>43.6</td>
</tr>
<tr>
<td>2 to 9</td>
<td>53.8</td>
</tr>
<tr>
<td>10 to 24</td>
<td>47.2</td>
</tr>
<tr>
<td>25 or more</td>
<td>44.4</td>
</tr>
</tbody>
</table>

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

Figure 3: Billings by Size of Firm

JUNE 2017 TO JUNE 2018

- **Sole practitioner**
- **2 to 9**
- **10 to 24**
- **25 or more**
Looking across regions, billings growth has been choppy. On a three-month moving average, only firms in the Midwest and South maintained positive billings growth with scores of 52 and 54 respectively (Fig. 4). Design firms operating in the Northeast and West registered a decline in billings over the quarter. Architecture firms across the country reported a similar pattern with billing indexes falling below 50 in the West and Midwest, and firms in the Northeast and South reporting scores above 50 (Fig. 5).
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. The respondents slightly overrepresent the Midwest and underrepresent the other regions.

### Table 3: Geographic Representation by Census Region

<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>19%</td>
<td>21%</td>
</tr>
<tr>
<td>South</td>
<td>33%</td>
<td>34%</td>
</tr>
<tr>
<td>West</td>
<td>27%</td>
<td>29%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Figure 5: Billings Index by Region – AIA, 3-Mo Moving Average

JUNE 2017 TO JUNE 2018
BILLINGS BY SECTOR

Figures 6 and 7 illustrate the recent trends in billing performance by market sector on a quarterly basis. Both figures show a fall-off from highs in March. Single family and multi-family residential projects are significantly below the expansionary scores reported for the same period a year ago. Commercial and institutional sector billings growth also fell into sub-50 territory with scores of 44 and 48, indicating contractionary billings growth.

Figure 6: Residential Sector Billings

Figure 7: Commercial Sector and Institutional Sector Billings
SIX-MONTH OUTLOOK: DESIGN INDUSTRY CONTINUES TO EXPECT FAVORABLE FUTURE OUTCOMES

The design industry remains optimistic about near term business conditions with 89 percent of survey respondents believing conditions will be about the same or better than they are now. The six-month business conditions index score of 59.6 for June is less than the 62.7 for March and 65.2 for December.

The Conference Board’s June expectations sub-index of its overall consumer confidence measure dipped at the end of June to 103.2 from a score of 106.2 reported in March as consumer expectations fell to their lowest level since December. Consumer expectations and business expectations have fallen off sharply.

The Dodge Momentum Index (DMI) rose to 165.5 in June from 153.3 in March, marking a new cycle high. Strength in the Dodge index suggests nonresidential construction is likely to strengthen in the second half of 2018. The Momentum Index is a monthly measure of the initial report for nonresidential building projects in planning, which lead construction spending for nonresidential buildings by a full year.

While the design industry has registered a softer than expected second quarter, the ASID six-month interior design business conditions index, the Conference Board’s expectations index, and the Dodge Momentum Index taken together reflect an improving broader economy that encourages spending for design services over the next six months.

Table 4: Expectations for Interior Design Business Conditions

<table>
<thead>
<tr>
<th>Expectations</th>
<th>ASID</th>
</tr>
</thead>
<tbody>
<tr>
<td>About the same</td>
<td>59%</td>
</tr>
<tr>
<td>Better than they are now</td>
<td>30%</td>
</tr>
<tr>
<td>Worse than they are now</td>
<td>11%</td>
</tr>
<tr>
<td>Business Six-month Outlook Index</td>
<td>59.6</td>
</tr>
</tbody>
</table>
Figure 8: Six-Month Outlook Comparison – ASID, Conference Board, and Dodge Momentum

JUNE 2017 TO JUNE 2018

- ASID
- Conference Board
- Dodge Momentum
PACE OF CONSTRUCTION SPENDING REMAINS ELEVATED

U.S. construction spending was $1.31 trillion in May at a seasonally adjusted annual rate, up 4.5 percent from $1.25 trillion in May 2017. The rate of residential construction spending is still on the rise, but capacity constraints are a concern as the search for available labor becomes increasingly difficult. The pace of public construction spending has been especially strong over the last several months. While the pace of nonresidential construction has been steady, it is sizeably above its growth rate of a year ago.

Residential improvement spending (Fig. 10) amounted to $203,664 million in May, a 5 percent year-over-year increase. The Joint Center for Housing Studies of Harvard University reports positive signs of strong home remodeling through next year. According to the report, homeowners are expected to increase spending on improvements and repairs at a solid clip over the coming year according to the Leading Indicator of Remodeling Activity (LIRA) released on July 19, 2018. The LIRA projects that annual growth in homeowner remodeling expenditures will taper somewhat in the first half of 2019, but will remain around 7 percent.
Figure 10: Residential Improvement Spending and ASID Billings Index

MAY 2017 TO MAY 2018

ASID Index

Residential Improvements $ millions
3-Mo Moving Average IDBI

Residential Improvements

MAY 17 | JUN 17 | JUL 17 | AUG 17 | SEP 17 | OCT 17 | NOV 17 | DEC 17 | JAN 18 | FEB 18 | MAR 18 | APR 18 | MAY 18

$180,000 | $185,000 | $190,000 | $195,000 | $200,000 | $205,000 | $210,000 | $215,000

$40 | $45 | $50 | $55 | $60 | 65

MAY 17 | JUN 17 | JUL 17 | AUG 17 | SEP 17 | OCT 17 | NOV 17 | DEC 17 | JAN 18 | FEB 18 | MAR 18 | APR 18 | MAY 18
LABOR MARKET CONTINUES AT SOLID PACE

The employment market remains solid well into its ninth year of expansion with employers adding 213,000 jobs to payrolls in June. Although the unemployment rate increased to 4 percent in June, the employment-to-population ratio was unchanged at 60.4 percent, meaning more workers entered the labor force looking for work. The U.S. job machine continues to generate average net job gains of approximately 200,000 per month (over the past 12 months) despite growing concerns by businesses about a shortage of qualified workers. As shown in Figure 11, architectural and interior design services job growth continues with an additional 2,300 jobs in the month of May, the largest gain since November 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 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).