Fourth quarter billings and inquiries down.
The ASID Interior Design Billings Index (IDBI) score of 44.1 was in contractionary territory for December, with its three-month moving index only slightly higher at 49.1. Inquiry scores were only slightly greater, with December inquiries recording a score of 42.8, and the three-month moving average at 48.8. Scores above 50 indicate industry expansion, while those below 50 indicate contraction.

Billings’ growth shows mixed results across size cohorts.
With the exception of the sole practitioner’s score of 52.4, firms across all size cohorts reported sub-50 three-month moving average scores in December. Firms of between 2 and 9 employees reported 45.5; firms with 10 to 25 employees, 45.8; and firms with more than 25 employees, 33.0.

Billings’ growth divided geographically in fourth quarter.
Fourth quarter billings scores for both AIA and ASID show that billings were up for the Midwest and Northeast regions of the country. For their three-month moving averages, design firms in the Midwest reported a score of 54.4, and the Northeast, 52.8. Firms in the West dropped slightly from September to a still positive 50.0, while the South fell to 43.9.

Fourth quarter billings uneven across market sectors.
Single-family (48.1) and multifamily (44.1) residential projects remain below the expansionary scores reported for the same period a year ago. Institutional and commercial sector billings recorded scores of less than 40, indicating billings reductions month-over-month for those sectors.

Six month outlook – economy expanding but at a moderating pace.
The design industry remains cautious about near term business conditions suggesting that spending may be reaching its cyclical peak. The majority of respondents reported that business is expected to be about the same over the next six months. While a quarter of the respondents believe business conditions will be better than now, one in five indicated they believe they will get worse. The six-month business conditions index score for December of 51.7 represents the steady decline in outlook since March (62.7), June (59.6), and September (54.6). Looking forward, weakening trends in the ASID Six-Month Business Conditions Index, the Conference Board’s Expectations Index, and the Dodge Momentum Index suggest that growth in the economy and the design industry are moderating going into 2019.
Labor market continues at solid pace.
The pace of job creation in the U.S. has been solid and unemployment rates are the lowest they have been in almost 50 years. The December employment report showed the economy added another 312,000 jobs in December, and the fourth quarter was the strongest in several years. Approximately 2.6 million jobs were added to payrolls in 2018, averaging 220,000 per month. While architectural job growth continued in 2018 with net gains every month, interior design employment declined in October and November. This is the first pull back since April 2011.

Construction spending remains firmly above its year-ago level.
Construction spending totaled $1.309 trillion at a seasonally adjusted annual rate in October, 4.9 percent higher than in October 2017. Total residential and nonresidential outlays are up solidly this year, as is private and public construction spending. Private residential construction increased 1.8 percent year-over-year. Private nonresidential spending increased 6.4 percent over 12 months. Public construction spending, comprised of public buildings and infrastructure, increased 8.5 percent for the year.

According to Jack Kleinhenz, ASID economist:
The year 2018 was extraordinary with economic activity supported by strong job growth, wage increases, relatively tame inflation, and household net worth climbing to new heights. As we turn the calendar, however, we enter a very complicated economic environment. While economic growth should remain positive through the end of 2019, the pace of growth is expected to slow. The impact of income tax cuts and government spending will dissipate and modulate personal consumption spending. Higher interest rates associated with Federal Reserve monetary tightening have weighed on the pace of the housing market. Uncertainty has increased as higher global tariffs and the possibility of more to come have created turbulence in financial markets. Adding significantly to this mix is the uncertainty generated by the U.S. government’s partial shutdown, which continued for more than a month, making it increasingly difficult to assess the economy.
ASID Survey: Fourth quarter billings

Survey results at the end of the fourth quarter showed a slowing in business conditions from the previous end-of-quarter scores. The strong March IDBI score of 58.5 remains a high point for 2018. The December three-month moving average score of 48.8 was less than the September score of 53.4. Scores below 50 indicate a contraction in billings compared to the previous month. The December new project three-month moving average rate was 48.8, a decline from September’s score of 53.4, and a sign of concern.

### 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>22%</td>
<td>44%</td>
<td>34%</td>
<td>44.1</td>
</tr>
<tr>
<td>How do new project inquiries* compare to previous month?</td>
<td>17%</td>
<td>52%</td>
<td>32%</td>
<td>42.5</td>
</tr>
</tbody>
</table>

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

### Figure 1: ASID Billings and Inquiries Index

[Graph showing ASID Billings and Inquiries Index from December 2017 to December 2018]
The design industry continued to experience a choppy pattern of billings growth in 2018. The average 2018 IDBI score of 51.2 was below the average score of 57.2 in 2017. After several months of solid acceleration, business conditions stepped down mid-year and into the fall. This is the lowest annual average since the survey began and is nearly identical to its 2011 score of 51.7. The ASID project inquiries scores moderated in 2018 to a monthly average of 53.0 – also the lowest average annual since the survey began in November 2010.

The ASID and AIA billings indices ended the fourth quarter on a down note. The IDBI index of 49.1 was in negative territory. Meanwhile the AIA December billings index of 50.4 showed more steadiness, only slightly lower than September’s score of 51.1.
BILLINGS BY FIRM SIZE

Billings of mid-sized firms employing 2-9 and 10-24 employees had increased in September with scores of 60 and 58 respectively. However, these enterprises fell into sub-par territory with scores of 45.5 and 45.8 (Figure 3) in the fourth quarter. Sole practitioners found their footing and rose from a score of 49.7 in the third quarter to 52.4. The largest sized firms of 25+ employees realized a monthly score of 50.0, well above their three-month moving average score of 33.0.

<table>
<thead>
<tr>
<th>Size of ASID Member Firm</th>
<th>INDEX: December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole practitioner</td>
<td>45.0</td>
</tr>
<tr>
<td>2 to 9</td>
<td>38.6</td>
</tr>
<tr>
<td>10 to 24</td>
<td>62.5</td>
</tr>
<tr>
<td>25 or more</td>
<td>50.0</td>
</tr>
</tbody>
</table>

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

Figure 3: Billings by Size of Firm – Three-Month Moving Average
Sole proprietorship design firms and firms with two to nine employees showed the least volatility in 2018 compared to larger firms. With average monthly IDBI indexes of 49.7 and 54.3 in 2018 respectively, both were below comparable scores from 2017. Alternatively, firms with more than 25 employees recorded an average monthly score of 41.0 compared to 57.3 in 2017. Firms with ten to twenty-four employees experienced another less than positive performance with an average monthly score of 48.3. Firms with two to nine employees were the only size group averaging above 50 during 2018 (54.3).
Fourth quarter billings scores for both AIA and ASID show that billings increased for the Midwest and Northeast regions of the country. For their three-month moving average, interior design firms in the Midwest reported a score of 54.4, while the Northeast reported a score of 52.8. The West dropped slightly from 54.5 to a still positive 50.0, while the South fell sharply from positive territory in the third quarter to contractionary territory in the fourth quarter with a score of 43.9 (Figure 4). Architecture firms across the country reported a similar pattern, with billing indexes on the increase in the Midwest and Northeast, and falling scores in the South and West (Figure 5).

Regional business conditions for the design industry were erratic and varied in 2018. Average monthly index scores as shown in Figure 4 indicate firms in the Midwest and West (53.3 and 50 respectively) exceeding or at 50. The average suggests that they achieved positive revenue results for the year. On a monthly average, firms in the Northeast (41.7) and South (36.8) were in contractionary territory. These results clearly show that the market for interior design services is driven by regional economic forces.

Figure 4: Billings Index by Region – Three-Month Moving Average

DECEMBER 2017 TO DECEMBER 2018
On a methodological note... the geographic distribution of December ASID respondents closely mirrors the geographic distribution of all interior design firms as shown in Table 3. The respondents slightly overrepresent the Midwest and Northeast while underrepresenting 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>18%</td>
<td>15%</td>
</tr>
<tr>
<td>Northeast</td>
<td>23%</td>
<td>21%</td>
</tr>
<tr>
<td>South</td>
<td>34%</td>
<td>35%</td>
</tr>
<tr>
<td>West</td>
<td>25%</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 on a quarterly basis. Both figures show a fall-off in business from highs in March. Single-family (48.1) and multifamily (44.1) residential projects remain below the expansionary scores reported for the same period a year ago. Institutional sector billings and commercial sector billings recorded scores of less than 40, indicating a reduction in billings month over month for those sectors.
During the first six months of 2018, demand for design firms with single-family and multifamily specialization showed solid momentum with annual average IDBI scores of 52.4 and 54.4. However, conditions deteriorated in the second half of the year as their monthly averages dropped below 50. These results are consistent with the weakness experienced in the overall housing industry. The commercial and institutional sectors benefited from stronger demand in the first half of 2018, but realized a fall-off in the last six months. The first half annual average monthly IDBI for commercial firms was 52.8, falling to 38.6 in the last half of 2018. Mirroring the same trend in business conditions, the average billings index for the institutional sector registered 58.6 for the first six months, but dropped to 44.6 in the last six months.
Looking forward, weakening trends in the ASID Six-Month Business Conditions Index, the Conference Board’s Expectations Index, and the Dodge Momentum Index suggests that growth in the economy and the design industry are expected to moderate during 2019.

The design industry remains cautious about near term business conditions, suggesting that spending may be reaching its cyclical peak. The majority of survey respondents reported that business is expected to be about the same over the next six months. While a quarter of respondents believe business conditions will be better than now, one in five believe they will get worse. The ASID Six-Month Business Conditions Index score for December of 51.7 represents the steady decline in outlook since March (62.7), June (59.6), and September (54.6).

There was a pullback in the Conference Board’s expectations sub-index of its overall consumer confidence in December, following a meager drop in November. The index slipped to a score of 99.1 in December after a modest decline in November, and a recent high of 115.1 in October. According to the Conference Board’s December release, “Expectations regarding job prospects and business conditions weakened, but still suggest that the economy will continue expanding at a solid pace in the short-term. While consumers are ending 2018 on a strong note, back-to-back declines in Expectations are reflective of an increasing concern that the pace of economic growth will begin moderating in the first half of 2019.”

The Dodge Momentum Index fell 4.9 percent in December to a score of 151.9. While the Momentum Index gained 4.3 percent from the end of 2017, this was realized in the first six months of 2018. During the final half of the year, the Index fell 4.4 percent. 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.
### 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>53%</td>
</tr>
<tr>
<td>Better than they are now</td>
<td>25%</td>
</tr>
<tr>
<td>Worse than they are now</td>
<td>22%</td>
</tr>
<tr>
<td>Business Six-month Outlook Index</td>
<td>51.7</td>
</tr>
</tbody>
</table>
PACE OF CONSTRUCTION SPENDING DECELERATING

Construction spending totaled $1.309 trillion at a seasonally adjusted annual rate in October, 4.9 percent higher than in October 2017. Private residential construction increased 1.8 percent year-over-year. Private nonresidential spending increased 6.4 percent over 12 months. Public construction spending, comprised of public buildings and infrastructure, increased 8.5 percent for the year.

Residential improvement spending (Figure 10) amounted to $194,312 million in October, a 0.4 percent year-over-year increase. After several months of solid acceleration, home improvement spending began to soften in the late fall. Likewise, the housing market lost momentum over the course of 2018. Higher mortgage rates and home prices reduced affordability. The Joint Center for Housing Studies of Harvard University reports that annual growth in the national market for home improvement and repair was expected to slow considerably by the end of 2018. Their recently released Leading Indicator of Remodeling Activity (LIRA) signals that gains in renovation and repair spending to owner-occupied homes in the U.S. will shrink from 7.5 percent in 2018 to 5.1 percent in 2019.
Figure 10: Residential Improvement Spending* and ASID Billings Index

DECEMBER 2017 TO DECEMBER 2018

Residential Improvements ($ millions)
3-Mo Moving Average IDBI

* November and December data delayed due to 2018-2019 Government Shutdown
LABOR MARKET CONTINUES AT SOLID PACE BUT DESIGN SERVICES JOBS DECELERATING

The pace of job creation in the U.S. has been solid and unemployment rates are the lowest they have been in almost 50 years. The December employment report showed the economy added another 312,000 jobs in December. The fourth quarter was the strongest in several years. Approximately 2.6 million jobs were added to payrolls in 2018, averaging 220,000 per month. As shown in Figure 11, architectural job growth continued in 2018 with net gains in every month. Consistent with the slower business conditions indicated by the ASID IDBI and evident in the latter half of 2018, interior design employment declined in October and November. This is the first pull back since April 2011.

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

NOVEMBER 2016 TO NOVEMBER 2018
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 being invited to participate in this program. Firms included in this survey primarily are offering 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 interior design industry 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).