HIGHLIGHTS

Fourth Quarter Billings and Inquiries on the Rise
The December edition of the ASID Interior Design Billings Index (IDBI) presented a strong score of 53.1, but hardly changed from September’s third quarter score of 53.2. The December new project inquiries index remained just in growth territory at 50.0.

Billings’ Growth for Small-sized Firms is in Contracting Billings Territory
Sole practitioners and firms with two to nine employees showed reduced billings with scores of 46.4 and 43.2 during the fourth quarter respectively. Sole proprietorships and firms with two to nine employees showed the least volatility in both 2018 and 2019 compared to larger firms.

Billings Growth Mixed across Geographies in Fourth Quarter
In three of the four regions, interior design firms reported increased billings over the fourth quarter. The Midwest had a score of 64.6; the South, a score of 56.8; and the Northeast a score of 55.1. The West had shown strong signs of growth in ten out of the last twelve months, but declined in December to a score of 42.6.

Fourth Quarter Year-over-year Billings are Up Across All Market Sectors
All four sectors, multifamily, single-family, commercial, and institutional, had a year of increasing billings. The single-family residential sector has experienced strong growth in billings since December 2018 and finished this December with a score of 54.7. Likewise, the multifamily sector finished with a very strong 59.3 for the fourth quarter of 2019. The commercial and institutional sectors had scores of 52.4 and 56.3, respectively.

Six Month Outlook – Stronger Business Conditions Expected
Interior designers are cautiously optimistic about the next six months (score of 57.1). While 60 percent expect no change in business conditions, 27 percent of interior designers felt conditions in six months would be better than today compared to 13 percent predicting a worsening of conditions.

While the Conference Board’s index shifted slightly down, the ASID six-month interior design business conditions index and the Dodge Momentum Index clearly reflect positive and steady economic activity. Taken together, these leading indicators are consistent with the economic data that suggests the economy is on track for steady but slower economic growth.

Labor Market Continues to Expand
Nonfarm employment slowed from growth of 2,679,000 workers in 2018 to a still solid reading of 2,108,000 employees created in 2019. The unemployment rate remained at 3.5 percent, continuing to be the lowest since December 1969.
Architectural and interior design services payrolls picked up over the year but especially in the final months. For the first 11 months of the year there has been an addition of 78,800 jobs in architectural design and 20,800 in interior design services. Most of the interior design positions were added in September through November, amounting to 11,700.

**Pace of Construction Spending Improving**

U.S. construction spending totaled $1.324 trillion at a seasonally adjusted annual rate in November, up 0.6 percent from the upwardly revised October rate, and up 4.1 percent year-over-year from November 2018. The current economic expansion is the longest on record and is expected to continue through 2020. As such, the performance of the U.S. construction industry remains sturdy, and for interior design firms, this translates into positive business opportunities.

**According to Jack Kleinhenz, ASID economist**

As we move into 2020, the economy is doing well. Growth is on track to slow to a modest rate of 2 percent, but to be more balanced with less uncertainty. Fundamentals will support the 2020 economy including job and wage growth. A recession is not in our forecast. Consumer spending remains decent and indicative of overall consumer confidence about their outlook for employment and income. Lower interest rates should give a lift to household spending on housing and home improvements. This is good news and supports the positive outlook reported by ASID panelists.
ASID Survey: Fourth quarter billings

Interior designers ended the year on a high note: December’s IDBI presented a strong score of 53.1, but hardly changed from September’s third quarter score of 53.2. In December, 72 percent of respondents reported billings had increased or stayed the same since November. During 2019, the IDBI three-month moving average ranged from 46.8 to 56.2. Since March of this year, designers have reported increased billings in every month on the basis of a three-month moving average. A score of 50 or above indicates increased billings. The December new project inquiries index remained just in growth territory at 50.0, below its three-month moving average of 53.2. On a month-to-month basis, in eleven out of twelve months, designers reported an increase in inquiries. Perhaps the lone low score in July represented the summer doldrums or vacations. Table 1 presents Billings and Inquiries for December 2019. All scores are reported in seasonally adjusted terms unless noted otherwise.¹

### 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>21%</td>
<td>51%</td>
<td>27%</td>
<td>53.1</td>
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<tr>
<td>How do new project inquiries* compare to previous month?</td>
<td>21%</td>
<td>40%</td>
<td>39%</td>
<td>50.0</td>
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*calls, emails, interviews, bids, solicitations, RFPs

¹ To allow for meaningful comparisons beginning in January 2019 all monthly scores are seasonally adjusted which provide a more accurate picture of the underlying changes affecting the data. A score above 50 indicates that firms in the aggregate are indicating an increase in monthly activity compared to the previous month, while a score below 50 signals that firms are reporting a decrease in monthly activity.
The design industry continued to experience bumpy billings growth in 2019. After enduring reduced monthly billings in January and February, designers reported monthly billings gains in the spring and summer months between March and October. While a dip occurred in November, scores bounced back to positive in December. The average 2019 IDBI score of 51.6 was virtually unchanged from the 2018 average score of 51.3. The ASID average three month project inquiries scores rose from 53.3 in 2018 to 56.0 in 2019. The positive change in billings and inquiries reflects the expanding economy as well as housing starts seen in 2019.
The AIA billings index ended the fourth quarter on solid footing with a December billings index score of 52.5, slightly above its three-month moving average of 52.1 and in positive territory for six out of the last ten months. The ASID IDBI score was more favorable over that period, staying above 50, in positive territory for nine out of the last ten months. Figure 2 provides graphic results comparing the ASID IDBI scores to the AIA scores. Architects in the West reported a score of 44.0 while all other regions reported growing billings with scores above 50. Over the past year, the AIA and ASID three month moving average scores ranged between 46 and 56. Designers averaged 51.6, while architects averaged a point lower at 50.6 for the annual three-month moving average.

Figure 2: ASID and AIA Billings Indices

<table>
<thead>
<tr>
<th></th>
<th>IDBI Index 3-mo Moving Average</th>
<th>AIA 3-mo Moving Average</th>
</tr>
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<tbody>
<tr>
<td>DEC 18</td>
<td></td>
<td></td>
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<tr>
<td>JAN 19</td>
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<td>SEP 19</td>
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<tr>
<td>OCT 19</td>
<td></td>
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<tr>
<td>NOV 19</td>
<td></td>
<td></td>
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<tr>
<td>DEC 19</td>
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</tbody>
</table>
BILLINGS BY FIRM SIZE

Billings by firm size, calculated as a three-month moving average, were down across the board during the fourth quarter. Sole practitioners and firms with two to nine employees showed December reduced billings with scores of 46.4 and 44.6 respectively. Larger firms, those employing 10 to 24 employees, scored 54.4, while firms employing 25 or more employees reported a score of 37. However, the sample size from the larger categories was very small and the interpretation of results must be tempered. (Figure 3)

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 both 2018 and 2019 compared to larger firms. The sole proprietor average monthly IDBI index of 50.7 in 2019 was up from 49.8 in 2018. Firms of two to nine employees had a 2018 index of 55.2. Those design firms posted a 2019 index that was slightly less at 52.9, but still in billings growth range for the year. Larger firms, with fewer in number reporting, posted slightly lower average scores in 2019 than in 2018. Firms of between 10 and 24 employees reported 45.7 in 2019 compared to 46.9 in 2018. Firms in the largest category, those employing 25 or more employees, reported a 2019 score of 39.4, less than their 2018 average of 40.3.
BILLINGS BY REGION

With the exception of the West, interior design firms reported increased billings over the fourth quarter. The Midwest had a score of 64.6; the South, a score of 56.8; and the Northeast a score of 55.1 (Figure 4). The West had shown strong signs of growth in ten out of the last twelve months, but declined in December to 42.6.

Regional business conditions for the design industry were tightly clustered in January and February 2019, hovering around scores of 50. The next ten months saw those scores diverge, fanning out to range from 43 in the West, to 65 in the Midwest by December. The South had the rockiest ride, enduring a five month summer/fall decline before rising in November and December to scores above 50. The average shows designers in the South achieved a sub-par score of 49.9 for the year. Northeast firms averaged 53.5 for the year, with every month in positive territory, while the West averaged 52.2 with 10 out of twelve months in positive billings territory. Finally the Midwest had a strong year, climbing from 50.9 in January to 64.6 in December. The market for interior design services is driven by regional economic forces.

While interior design firms in the Northeast region enjoyed a strong year and finish, architectural firms in the Northeast suffered a sub-par fourth quarter, starting in October at 47.2, and hovering there or below to finish the quarter at 44.0, indicating a reduction in billings (Figure 5). The other three regions finished in positive territory: Midwest, 51.9; South, 52.2; and West, 54.0.
On a methodological note, the geographic distribution of December respondents closely mirrors the geographic distribution of all interior design firms as shown in Table 2. The respondents slightly over represent the Northeast and South, while underrepresenting the West.

Table 2: Geographic Representation by Census Region

<table>
<thead>
<tr>
<th>Census Region</th>
<th>ASID Survey Respondents</th>
<th>Distribution of Interior Design Population</th>
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</thead>
<tbody>
<tr>
<td>Midwest</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Northeast</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>South</td>
<td>37%</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>
BILLINGS BY SECTOR

Figure 6 illustrates the recent trends in billing performance by market sector on a quarterly basis. All four sectors, multifamily, single-family, commercial, and institutional, had a year of increasing billings. Even the fourth quarter, showing a decline in all indices, still boasted above 50 scores for all four sectors. The single-family residential sector has experienced strong growth in billings since December 2018 and finished this December with a score of 54.7. Likewise, the multifamily sector finished with a very strong 59.3 for the fourth quarter of 2019. Commercial and institutional sectors had scores of 52.4 and 56.3, respectively.

Multifamily and single-family both raised their average in 2019 (2018 averaged 50): multifamily increased to a 2019 average of 59.2, and single-family to a score of 55.2. The commercial and institutional sectors benefited from stronger demand in the last three quarters of 2019. The institutional sector increased its annual average to 56.7 in 2019, up from an average of 51.4 in 2018. The average monthly IDBI for commercial firms grew from 45.4 in 2018 to 52.6 in 2019. According to the Association for General Contractors, panelists are more optimistic in 2020 than 2019 for multifamily, infrastructure, and institutional categories, but less upbeat than before for other nonresidential building segments.
Interior designers are cautiously optimistic about the next six months (score of 57.1). While a majority of 60 percent expect no change in business conditions, 27 percent believe conditions will improve over the next six months, while 13 percent predict worsening conditions.

<table>
<thead>
<tr>
<th>Expectations</th>
<th>ASID</th>
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<tbody>
<tr>
<td>About the same</td>
<td>60%</td>
</tr>
<tr>
<td>Better than they are now</td>
<td>27%</td>
</tr>
<tr>
<td>Worse than they are now</td>
<td>13%</td>
</tr>
<tr>
<td>Business Six-month Outlook Index</td>
<td>57.1</td>
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</table>

The Conference Board’s December expectations component of its overall consumer confidence measure fell from 100.3 in November to 97.4 in December. Despite the decline, expectations are only a touch below that seen in December 2018. Though the Conference Board overall index, which includes current and future conditions, is off its cyclical high, it’s not raising a red flag yet.

The Dodge Momentum Index increased 1.5 percent in December to 156.2 (2000 index was 100) from the revised November reading of 153.9. According to Dodge, the Momentum Index averaged 141.9 for the year, a decline of 3.7 percent from 2018’s average. While the monthly Momentum Index did end 2019 at a lower level, it remains elevated, and any decline in construction related spending is likely to be modest in nature.

While the Conference Board’s index shifted slightly down, the ASID six-month interior design business conditions index and the Dodge Momentum Index clearly reflects positive and steady economic activity. Taken together, these leading indicators are consistent with the economic data that suggests the economy is on track for steady but slower economic growth.
PACE OF CONSTRUCTION SPENDING MODERATING

U.S. construction spending totaled $1.324 trillion at a seasonally adjusted annual rate in November, up 0.6 percent from the upwardly revised October rate and up 4.1 percent year-over-year from November 2018. Private residential spending increased 1.9 percent in November and 2.7 percent year-over-year. New single-family construction climbed for the fifth consecutive month, by 1.2 percent from October to November, but dipped 0.3 percent year-over-year. Spending on new multifamily homes was flat for the month and down 3.9 percent. Private nonresidential spending declined 1.2 percent from October but edged up 0.2 percent year-over-year.

Figure 8: U.S. Construction Spending, Year-over-year Percent Change
Residential improvement spending (Figure 9) amounted to $196,300 million in November, 9.7 percent greater than a year earlier. The Joint Center for Housing Studies of Harvard University reported that home remodeling expenditures will increase by just 1.5 percent in 2020 compared with annual gains of five to seven percent in recent years. However, the slower pace should begin to moderate by year-end as today’s healthier housing market indicators will ultimately lead to more home renovation and repair.

Construction spending is generally considered a lagging indicator of economic activity because it is the last sector affected by a downturn and the last to begin to recover. The current economic expansion is the longest on record and is expected to continue through 2020. As such, the performance of the U.S. construction industry remains sturdy and for interior design firms, this translates into positive business opportunities.
For 2019, nonfarm employment slowed from growth of 2,679,000 workers in 2018 to a still solid reading of 2,108,000 employees created in 2019. The unemployment rate remained at 3.5 percent, continuing to be the lowest since December 1969. As shown in Figure 10, architectural and interior design services payrolls picked up over the year but especially in the final months. For the first 11 months of the year there has been an addition of 78,800 jobs in architectural design and 20,800 in interior design services (nonfarm payrolls increased a modest 145,000 in December). Most of the interior design positions were added in September through November, amounting to 11,700.

Figure 10: Interior Design and Architectural Services Payrolls, 12 Month Net Change in Employment

NOVEMBER 2017 TO NOVEMBER 2019

<table>
<thead>
<tr>
<th></th>
<th>Architecture</th>
<th>Interior Design</th>
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<tr>
<td>NOV 17</td>
<td>3.00</td>
<td>-1.00</td>
</tr>
<tr>
<td>JAN 18</td>
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<td>MAR 18</td>
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</table>
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 200 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, and other related enterprises. Panelists are asked to report on their current billings relative to the previous months and report on recent business inquiries. 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).