THE ASID INTERIOR DESIGN BILLINGS INDEX

1ST QUARTER REPORT
JANUARY - MARCH 2017
First quarter ASID survey results show positive momentum and the overall trend remains positive.

The March ASID IDBI score is 62.8, a clear advantage over December’s value of 52.9. The March index is stronger than its three-month moving average of 59, indicating strong momentum and signaling sturdy revenue gains (score of 50 or above). The new project inquiry rate rose to 58, up from a December score of 53.3.

Strong demand for interior design services across the four size cohorts.

Design firms of all sizes enjoyed positive billings in March and had scores above their three-month moving average reflecting ongoing business strength. Sole practitioner design firms reported a strong March IDBI score of 60.9, higher than any scores from the previous 12 months. Firms with two to nine employees reported an even stronger score of 63.8.

ASID firms in all regions report growth during the first quarter.

Design firms across all regions showed billing growth relative to low January scores suggesting business conditions strengthened. Scores ranged from 59 in the West to 66 in the Northeast.

Billing results are positive across all market specializations, except the Institutional sector.

Billings for design firms specializing in single-family and multifamily residential sectors have gained since December, posting scores of 63 and 56. Commercial sector interior designers reported no change in billings from February to March. Those serving the Institutional sector reported a decline in billings over the month with a score of 40.

Six-month outlook – stronger business conditions expected.

The ASID six-month interior design business conditions index, the Conference Board’s expectations index and the Dodge Momentum Index reflect an improving broader economy and that spending for design services should continue over the next six months. Looking forward, the design industry remains optimistic about the near term outlook for business conditions. The six-month business conditions index score of 63.4 for March was virtually unchanged from the December score of 63.6 and markedly higher than September (59) and June (57) scores.
The labor market continues to expand.

U.S. payroll employment rose 98,000 in March and averaged 163,000 in the last six months. In 2015 the average monthly gain was 226,000 jobs and in 2016 it shifted to 187,000. Since 2014, annual monthly job gains have slowed as the unemployment rate has approached full employment. Average hourly earnings in March increased by 0.2 percent bringing the year-over-year gain to 2.7 percent. 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 early 2017.

U.S. construction spending in February rose to a decade high spurred by strong gains in residential construction spending. Total construction spending for February was $1.93 trillion, 0.8 percent higher than in January and 3 percent higher than in February 2016.

According to Jack Kleinhenz, ASID economist:

Recent data indicate the economy cooled a bit more than expected in the first quarter. No single factor dominated this year’s slower start. While recent consumer and business spending are at odds with elevated confidence measures, we expect a pick-up in spending in the coming months and ASID indicators point in this direction.
ASID Survey: First quarter showed continued positive momentum for design industry

Survey results for the first quarter showed improvement from December scores. The March ASID IDBI score registered 62.8, a clear advantage over December’s value of 52.9. The March index is stronger than its three-month moving average of 59, indicating strong momentum and positive revenue gains (score of 50 or above). Of respondents, 87 percent indicated an increase or the same level of billings from February. The new project inquiry rate rose to 58, up from a December score of 53.3, but slightly below its September score of 59.2.

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>40%</td>
<td>47%</td>
<td>14%</td>
<td>62.8</td>
</tr>
<tr>
<td>How do new project inquiries* compare to previous month?</td>
<td>36%</td>
<td>45%</td>
<td>19%</td>
<td>58.0</td>
</tr>
</tbody>
</table>

* calls, emails, interviews, bids, solicitations, RFP

Figure 1: ASID Billings and Inquiries Index

MARCH 2016 TO MARCH 2017
While the trend of the AIA three-month index is consistently below that of the ASID IDBI three-month index (Figure 2) both readings indicate positive fourth quarter business conditions (any score above 50 indicates an increase in billings). The higher IDBI level in part reflects differences in the underlying base of business activities.

Figure 2: ASID and AIA Billings Indices

![Graph showing ASID and AIA Billings Indices from March 2016 to March 2017](image-url)
Design firms of all sizes enjoyed positive billings in March and scores above their three-month moving average, reflecting ongoing business strength. Sole practitioner design firms reported a strong March IDBI score of 60.9, higher than any scores from the previous 12 months. Firms with two to nine employees reported an even stronger score of 63.8. Larger sized firms had fewer responses yet indicate growth in billings from February to March. 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: March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole practitioner</td>
<td>60.9</td>
</tr>
<tr>
<td>2 to 9</td>
<td>63.8</td>
</tr>
<tr>
<td>10 to 24</td>
<td>70.0</td>
</tr>
<tr>
<td>25 or more</td>
<td>75.0</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

MARCH 2016 TO MARCH 2017
Design firms across all regions showed billing growth relative to low January scores suggesting business conditions strengthened. Scores ranged from 59 in the West to 66 in the Northeast (Figure 4).

There are regional similarities and differences comparing the IDBI and the AIA indices (Figure 4 and Figure 5). Both design and architecture firms across all regions in March report higher billings, a good start going forward into 2017.
On a methodological note...the geographic distribution of March ASID respondents overrepresent the Midwest and West regions in terms of the geographic distribution of all interior design firms as shown in Table 3. For example, respondents from the Midwest region account for 21 percent of the survey’s results while all interior design firms located in the Midwest account for 15 percent of the population. In the Northeast, survey respondents (19 percent) under represent interior designers in that region (22 percent).

<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>22%</td>
</tr>
<tr>
<td>South</td>
<td>35%</td>
<td>38%</td>
</tr>
<tr>
<td>West</td>
<td>26%</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
BILLINGS BY SECTOR

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 multifamily residential sectors show gains since December, posting scores of 63 and 56. Readings may include seasonal factors at work and the data are not adjusted for seasonality. The design industry mirrors the broader housing sector and residential construction data which showed a pick-up in the first quarter of 2017.

Figure 6: Residential Sector Billings

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>55</td>
<td>60</td>
<td>55</td>
<td>60</td>
<td>55</td>
<td>60</td>
<td>55</td>
<td>60</td>
<td>55</td>
<td>60</td>
<td>55</td>
<td>60</td>
<td>55</td>
</tr>
<tr>
<td>Multifamily</td>
<td>50</td>
<td>45</td>
<td>50</td>
<td>45</td>
<td>50</td>
<td>45</td>
<td>50</td>
<td>45</td>
<td>50</td>
<td>45</td>
<td>50</td>
<td>45</td>
<td>50</td>
</tr>
</tbody>
</table>

MARCH 2016 TO MARCH 2017
As shown in Figure 7, Commercial sector interior designers reported no change in billings from February to March. Those serving the Institutional sector reported a decline in billings over the month with a score of 40.
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 63.4 for March was virtually unchanged from the December score of 63.6 and markedly higher than September (59) and June (57) scores. The consistency of these scores (above 50) going back over twelve months argues for continued expansion for the design industry.

The Conference Board’s March expectations sub-index of its overall consumer confidence measure jumped nearly 7.4 points from December to 113.8. It is now at its highest level since 2000. Business expectations continue to improve and consumers also expressed much greater optimism regarding the short-term outlook for business, jobs, and personal income prospects.

The Dodge Momentum Index increased 6.7 percent in March to 144.4 (2000=100) from its revised December reading of 135.32 and was 29 percent higher than the same month a year earlier. According to Dodge Data & Analytics, The Momentum Index has now risen for six consecutive months and continues to signal the potential for increased construction activity in 2017.

Taken together, the ASID six-month interior design business conditions index, the Conference Board’s expectations index and the Dodge Momentum Index reflect an improving broader economy and that spending for design services will continue over the next six months.

<table>
<thead>
<tr>
<th>Expectations</th>
<th>ASID</th>
</tr>
</thead>
<tbody>
<tr>
<td>About the same</td>
<td>55%</td>
</tr>
<tr>
<td>Better than they are now</td>
<td>36%</td>
</tr>
<tr>
<td>Worse than they are now</td>
<td>9%</td>
</tr>
<tr>
<td>Business Six-month Outlook Index</td>
<td>63.4</td>
</tr>
</tbody>
</table>

Table 4: Expectations for Interior Design Business Conditions

MARCH 2017
Figure 8: Six-Month Outlook Comparison - ASID, Conference Board, and Dodge Momentum

MARCH 2016 TO MARCH 2017

- ASID
- Conference Board
- Dodge Momentum

© American Society of Interior Designers, 2017. Information may be used with full attribution to ASID. All rights reserved.
CONSTRUCTION SPENDING SHOWS STRONG GAINS

U.S. construction spending in February rose to a decade high spurred by strong gains in residential construction spending. Total construction spending for February was $1.93 trillion, 0.8 percent higher than in January and 3 percent higher than in February 2016. Private residential construction spending, which includes residential, nonresidential, and home improvement was $484.7 billion, a 1.8 percent increase from the previous month and 6.4 percent higher than last February. While total nonresidential spending was relatively unchanged from a month earlier, it increased 7.4 percent year-over-year. Public spending increased 0.6 percent in February but is down 8 percent year-over-year.

Residential improvement spending (Figure 10) amounted to $162,683 million in February, 3 percent higher than January and 10 percent more than the same month a year earlier. According to the Joint Center for Housing Studies of Harvard University, strong and stable growth is predicted for the home improvement and repair market in 2017. Propelling this growth are healthy gains in home prices that are encouraging home modeling reinvestments.
Figure 10: Residential Improvement Spending and ASID Billings Index

FEBRUARY 2016 TO FEBRUARY 2017

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

ASID Index

Residential Improvements

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

$90,000  $100,000  $110,000  $120,000  $130,000  $140,000  $150,000  $160,000  $170,000

$140,000  $130,000  $120,000  $110,000  $100,000  $90,000

40  45  50  55  60  65
U.S. payroll employment rose 98,000 in March and averaged 163,000 in the last six months. In 2015 the average monthly gain was 226,000 jobs and in 2016 it shifted to 187,000. Since 2014, annual monthly job gains have slowed as the unemployment rate has approached full employment. Average hourly earnings in March increased by 0.2 percent bringing the year-over-year gain to 2.7 percent. 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.

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 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 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).