

Center for Economic and Business Research

Business Optimism Survey Report – Fourth Quarter 2016

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In Collaboration With



COASTAL
COMMUNITY BANK

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Executive Summary

The fourth quarter 2016 Business Optimism Survey (Survey) is a collaboration between The Center for Economic and Business Research (The Center) and Coastal Community Bank to collect information related to the business environment primarily within Snohomish County. The survey represents the fourth report in a longitudinal series that makes inquiries of businesses from the perspective of employees in leadership roles within community businesses. This period, additional questions ask respondents to rate their business expectations based on the projected national economic and social policies resulting from the November 2016 election results.

To familiarize readers with the content of this survey, here we make a few observations:

- Decision-makers within Snohomish County businesses report feeling very optimistic about the future of their businesses, as well as the regional economy. **Overall optimism about business prospects in the near future increased from the previous study by approximately 5 percent**, averaging around 74.4 out of 100, where 100 represents the most optimistic view. Contributing factors include, but are not limited to:
 - **Almost two-thirds (65 percent) of respondents expect growth in the regional economy over the next year.** This represents the most optimistic response to this question of any period, and is more than double the response from the previous period (32 percent).
 - **74 percent of businesses expect revenues to rise** from the previous year, which is a significant increase from last period, where only 64 percent expected a rise in revenues.
 - 57 percent of businesses expect to invest at the same level as last year, and 27 percent expect to invest more than last year (previously 53 percent and 33 percent, respectively).
 - **Over the next 5 years, 75 percent of businesses expect an increase in net profits (previously 68 percent)**, 57 percent expect growth in employment (previously 55 percent), 38 percent expect growth in equipment (previously 49 percent), and 42 percent expect increases in gross margins (previously 40 percent). Only 12 percent of businesses did not expect any growth, down from 13 percent in the previous period.
- Based on the projected policies resulting from a Republican led Federal Government, 66 percent of respondents feel more optimistic about their business, and 64 percent feel these policies will have a positive impact on the regional economy.
 - 16 percent of respondents' businesses have workers that will be impacted by the State's new minimum wage law.
 - Only 1 percent of respondents' businesses rely on foreign workers.
 - 18 percent of respondents' businesses import items to sell or use in their manufacturing process, and 13 percent export items for sale from their business.
- The most accessible sources of funding for respondents include:
 - Revenue generated by the business (58 percent consider most accessible source)
 - Owner's personal cash (27 percent consider most accessible source)
- The least accessible sources of funding for respondents include:
 - Borrowing from family or friends (50 percent consider least accessible source)
 - Selling business assets (36 percent consider least accessible source)

- Construction (21 percent), Professional/Scientific/Technical Services (18 percent) and Retail Trade (17 percent) are the highest represented industries. These same industries were also highly represented in the previous survey period.
- 55 percent of businesses surveyed have been in operation for 20 years or less, while 19 percent of businesses have been in operation for more than 40 years (previously 46 and 23 percent, respectively).
- The average responding company in the region has 15 full time workers and 4 part time workers – the respondents in the current period represent smaller companies than previous periods.
- Compared to previous periods, more respondents (72 percent) identify themselves as the owner of their business (previously 65 percent).

Clarifying Notes

1. Percentages given are of the number responding to a question divided by the number asked that question.
2. In some cases, percentages do not sum to one hundred because of rounding
3. A report of 0 percent indicates that the percentage of responses rounded down to, but is not equal with, zero.
4. This report presents responses from all businesses completing any question regardless of whether the respondent completed the entire survey or not.

Survey Results

Q1: How would you rate the Snohomish County economy for 2016?

88 percent of respondents rate the Snohomish County economy in 2016 as *at least* good (or extremely good), with absolutely no respondents rating the economy as extremely poor. This indicates a general level of satisfaction with the local economy.

Respondents appear to view the 2016 regional economy more favorably when looking at it in retrospect – 8 percent more respondents rate the Snohomish County economy as extremely good in the current period compared to last period, and 4 percent less give a negative rating (poor or extremely poor) compared to last period.

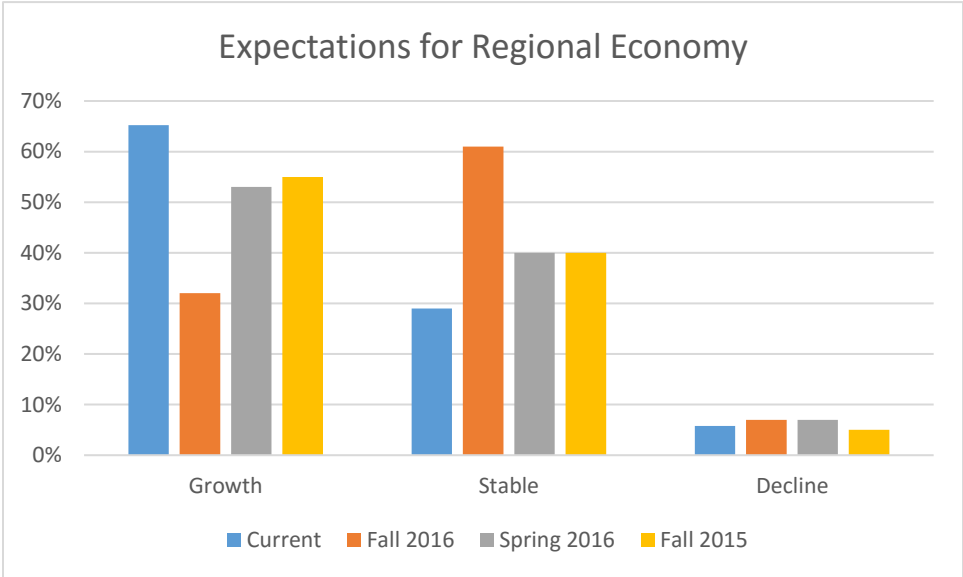
Period	Extremely Poor	Poor	Good	Extremely Good	N
Current	0%	11%	70%	18%	71
Fall 2016	1%	14%	75%	10%	99

Q2: When thinking about the regional economy, what are your expectations for the next 12 months?

Almost two-thirds (65 percent) of the respondents expect regional economic growth for the next 12 months, while 29 percent expect the local economy to remain stable over the same period. Only 6 percent of respondents expect the local economy to decline, which is consistent with previous studies.

The large proportion of respondents expecting growth in the regional economy shows a large improvement in optimism compared to previous studies. Even though there was a period in Fall 2016 when only 32 percent of respondents expected growth, expectations for the regional economy have improved to be even more optimistic than the baseline survey in Fall 2015.

Period	Growth	Stable	Decline	N
Current	65%	29%	6%	69
Fall 2016	32%	61%	7%	99
Spring 2016	53%	40%	7%	399
Fall 2015	55%	40%	5%	262

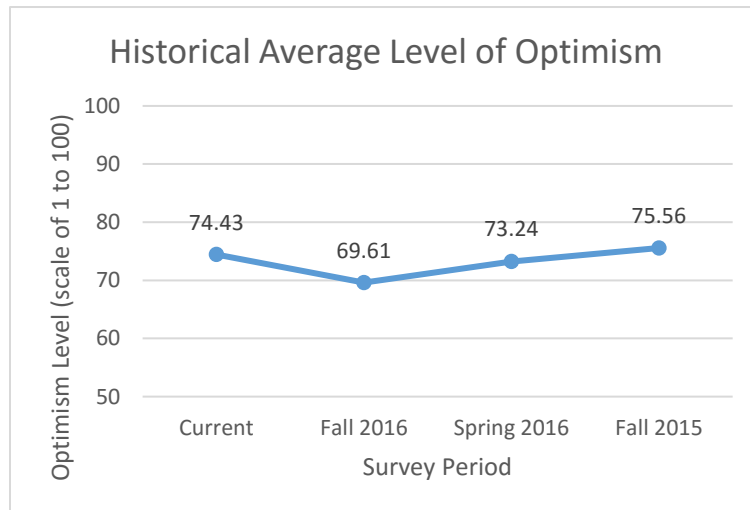


Q3: What is your level of optimism for your business prospects in the next 12 months?

The average level of optimism on a scale of 1 to 100, 100 representing the most optimistic, was reported as 74.43, suggesting the average business in Snohomish County is quite optimistic about business prospects in the coming 12 months. While most respondents reflect optimism in business prospects, there are outliers in both directions.

These findings indicate that there has been a large increase in optimism about business prospects since last survey, almost returning to the level of optimism seen in the baseline survey.

Period	Average Value	Standard Deviation	N
Current	74.43	19.79	68
Fall 2016	69.61	18.52	87
Spring 2016	73.24	20.21	402
Fall 2015	75.56	19.03	248



Q4: Now that the elections are over and we are expecting a Republican led Federal Government, how would you rate your level of optimism for your business based on the projected national economic and social policies?

Respondents have a generally optimistic outlook for their businesses based on the projected policies resulting from a Republican led Federal Government – 66 percent report feeling more optimistic, and 17 percent report the same level of optimism about their business prospects. However, there is still a significant proportion (17 percent) of respondents who feel less optimistic about their business prospects after the last election.

This question is unique to the current post-election period – no historical comparisons are available.

Period	Less optimistic	The same level of optimism	More optimistic	N
Current	17%	17%	66%	70

Q5: How do you feel these projected national policies will impact our regional economy in the next 12 months?

Most respondents (64 percent) feel the projected national policies of a Republican led government will have a positive impact on the regional economy in the near future. A significant proportion (22 percent) of respondents do believe that these projected national policies will impact our regional economy negatively.

Compared to the previous question, it should be noted that a greater proportion of respondents think the projected national policies will have a negative effect on the regional economy (22 percent) than on their own business prospects (17 percent).

This question is also unique to the current post-election period – no historical comparisons are available.

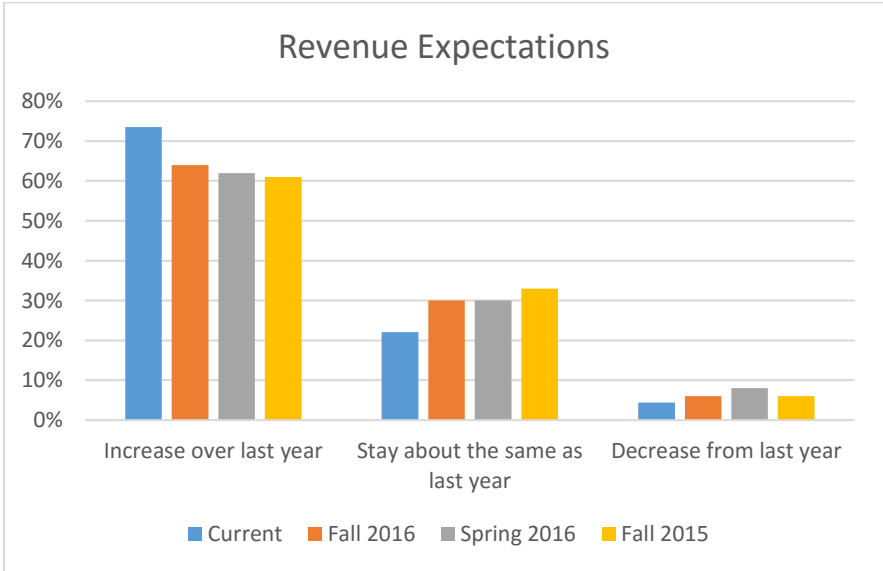
Period	Positively	No Impact	Negatively	N
Current	64%	14%	22%	69

Q6: In thinking about your business in particular, do you expect your revenues to increase over the last year, stay about the same as last year, or decrease from last year?

Nearly three-quarters of respondents (74 percent) expect revenues to increase over last year. 22 percent expect about the same level of revenue as last year, and only 4 percent of respondents expect a decrease in revenue from last year.

The historical data shows a steady and significant increase in optimism about business revenues – there has been a 13 percent increase since the baseline study in respondents that expect an increase in business revenues, 10 percent of which happened since Fall 2016 alone.

Period	Increase over last year	Stay about the same as last year	Decrease from last year	N
Current	74%	22%	4%	68
Fall 2016	64%	30%	6%	98
Spring 2016	62%	30%	8%	399
Fall 2015	61%	33%	6%	262

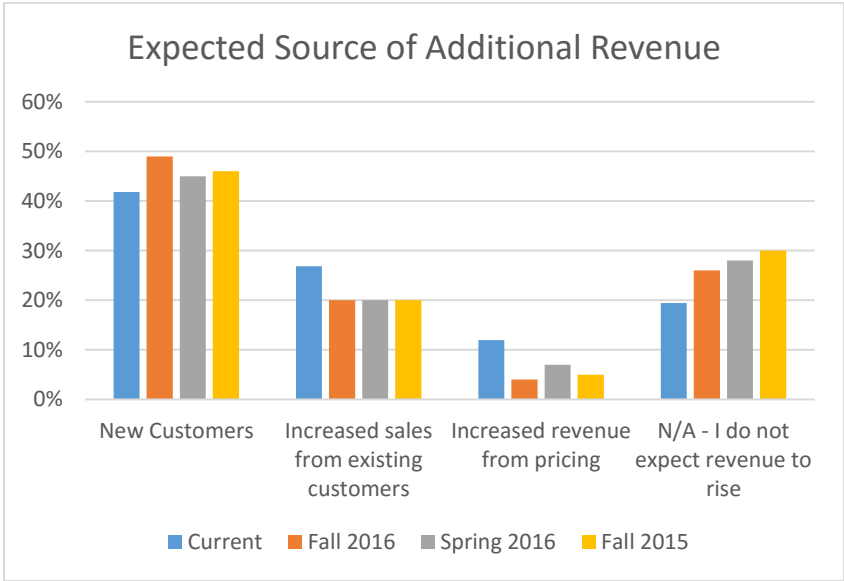


Q7: If you expect your revenue to rise from last year, where do you expect the majority of it to come from? New customers, increased sales from existing customers, increased revenue from pricing, or no expected rise in revenue.

In the current period, only 19 percent of respondents do *not* expect their business revenue to rise from last year – the lowest proportion since the baseline study. This echoes results from other questions this period which show an increase in optimism about business prospects and revenue.

There has been a shift from previous periods concerning where businesses expect their increased revenues to come from – less respondents think their increased revenues will come from new customers (42 percent) than any other period, and more respondents think these revenues will come from increased sales from existing customers (27 percent) or increased revenue from pricing (12 percent). While new customers still represent a large proportion of responses, there seems to be a shift towards increased sales from existing customers and increased revenue from pricing.

Period	New Customers	Increased sales from existing customers	Increased revenue from pricing	N/A - I do not expect revenue to rise	N
Current	42%	27%	12%	19%	67
Fall 2016	49%	20%	4%	26%	93
Spring 2016	45%	20%	7%	28%	384
Fall 2015	46%	20%	5%	30%	254

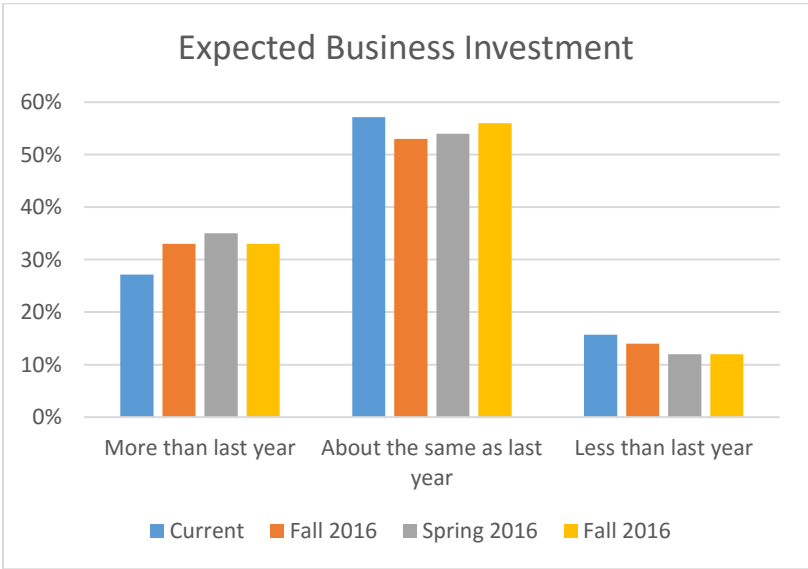


Q8: In thinking about your business in particular, do you expect to invest in the business more than last year, about the same as last year, or less than last year?

Over half, or 57 percent of respondents expect to invest about the same as last year, while 27 percent expect to invest more than last year. This suggests *at least* stable investment into local businesses in the near future and potential growth in revenue due to the 27 percent of respondents who expect capital injection to increase.

Even though respondents seem more optimistic about their business prospects for the upcoming year, they aren't quite as keen on investing in their businesses as they were in previous periods – since the baseline study, there has been a 5 percent decrease in respondents expecting to invest more than last year, and a 4 percent increase in respondents expecting to invest less than last year.

Period	More than last year	About the same as last year	Less than last year	N
Current	27%	57%	16%	70
Fall 2016	33%	53%	14%	98
Spring 2016	35%	54%	12%	399
Fall 2016	33%	56%	12%	264

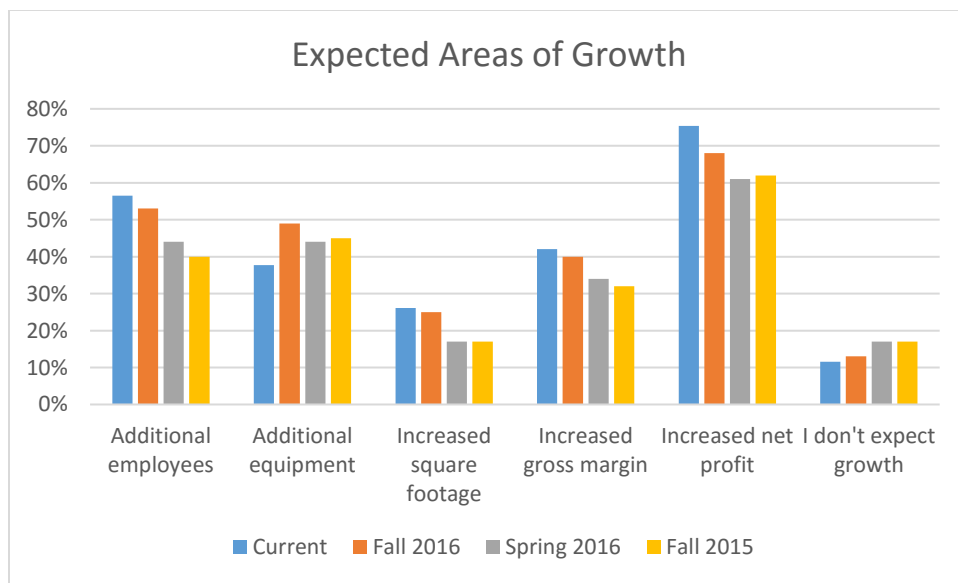


Q9: When thinking about the next five years, what type of growth, if any, do you expect? (Check all that apply)

Respondents became even more optimistic about growth in net profit in the next five years – 75 percent of respondents reporting expected growth in this area. Respondents also expect more growth than previous periods in the areas of additional employees (57 percent), increased square footage (26 percent), and increased gross margin (42 percent).

One area where respondents expect less growth than previous periods is additional equipment. Last period, almost half (49 percent) of respondents expected growth in additional equipment. This has dropped by 11 percent, to only 38 percent of respondents expecting additional equipment growth for their business in the next 5 years.

Period	Additional employees	Additional equipment	Increased square footage	Increased gross margin	Increased net profit	I don't expect growth	N
Current	57%	38%	26%	42%	75%	12%	69
Fall 2016	53%	49%	25%	40%	68%	13%	97
Spring 2016	44%	44%	17%	34%	61%	17%	395
Fall 2015	40%	45%	17%	32%	62%	17%	260



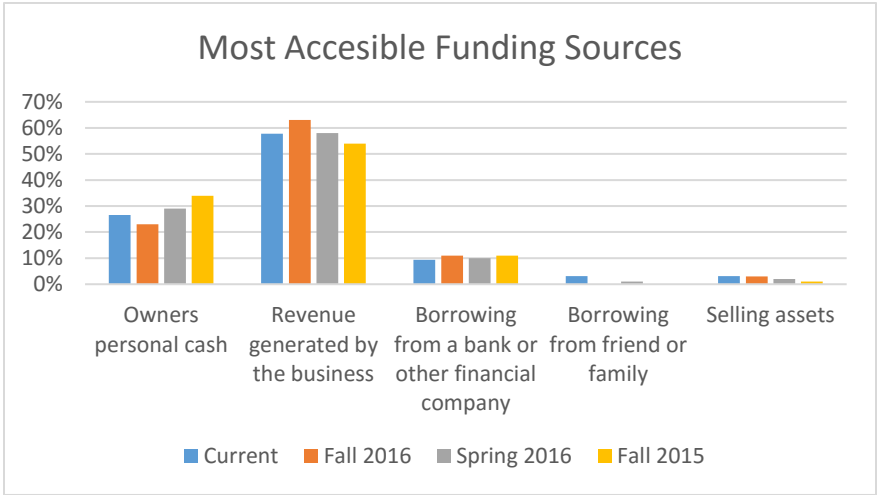
Q10: When your business needs additional capital, how would you rank these sources of funding as most accessible to you? (Ranked on scale from 1 to 5; most to least accessible)

A majority of the respondents (58 percent) reported revenue generated by the business to be the most accessible source of additional capital. Personal funding by the owner is also considered one of the most accessible sources of funding. Similar to previous studies, borrowing from friends or family, or selling assets were reported as the least accessible amongst the options.

Views vary concerning borrowing from a bank or other financial company – 9 percent of respondents list it as their most accessible source of funding, 11 percent list it as their least accessible source of funding, and the rest of respondents place it somewhere in the middle.

Compared to the previous period, 5 percent less of the respondents list revenue generated by the business as their most accessible source of additional funding, while 4 percent more of the respondents list owners personal cash as the most accessible source. The results from the current period are quite similar to the first two studies, indicating that respondents views of funding source accessibility have remained relatively stable since Fall 2015.

CURRENT	Most Accessible	Somewhat Accessible	Least Accessible	Total		
Owners personal cash	27%	36%	25%	11%	2%	64
Revenue generated by the business	58%	34%	6%	0%	2%	64
Borrowing from a bank or other financial company	9%	27%	36%	17%	11%	64
Borrowing from friend or family	3%	2%	11%	34%	50%	64
Selling assets	3%	2%	22%	38%	36%	64



PLEASE NOTE THAT THIS GRAPH ONLY DEPICTS RESPONDENTS' CHOICES FOR THE TOP SOURCE OF ADDITIONAL FUNDING

Q11: From the pull down list, please choose the industry group your company is most closely identified with.

Construction and Professional/Scientific/Technical Services are the most represented industries in this survey, at 21 percent and 18 percent of total respondents, respectively. Other notable industries include Retail Trade, representing 17 percent of total respondents, and Real Estate/Rental/Leasing, which represents 14 percent of total respondents.

Compared to the Snohomish County’s employment data from the Employment Security Department, the top 4 industries responding to this survey are over-represented. In Snohomish County, the Construction industry actually accounts for 16 percent of total firms, the Professional/Scientific/Technical Services industry accounts for 10 percent, the Retail Trade industry accounts for 8 percent, and the Real Estate/Rental/Leasing industry accounts for only 3 percent. Additionally, there were no respondents from the Finance/Insurance, Administrative/Waste Services, Educational Services, Health Care/Social Assistance, or Accommodation/Food Services industries, which all have a significant presence in Snohomish County. This disparity should be kept in mind when considering the results of this survey.

Industry	%	Count
Construction	21.2%	14
Professional, Scientific and Technical Services	18.2%	12
Retail Trade	16.7%	11
Real Estate and Rental and Leasing	13.6%	9
Manufacturing	9.1%	6
Wholesale Trade	4.6%	3
Other Services, except Public Administration	4.6%	3
Agriculture, Forestry, Fishing and Hunting	3.0%	2
Transportation and Warehousing	3.0%	2
Information	1.5%	1
Management of Companies and Enterprises	1.5%	1
Arts, Entertainment, and Recreation	1.5%	1
Public Administration	1.5%	1
Total	100%	66

Q12: What ZIP code is your business headquartered in?

The survey screened respondents to include only businesses that have a significant presence in Snohomish County.

The majority of businesses, or 61 out of the 98 respondents, are headquartered in ZIP codes that correspond to parts of, or all of, Everett, Snohomish, Marysville, Arlington, and Stanwood.

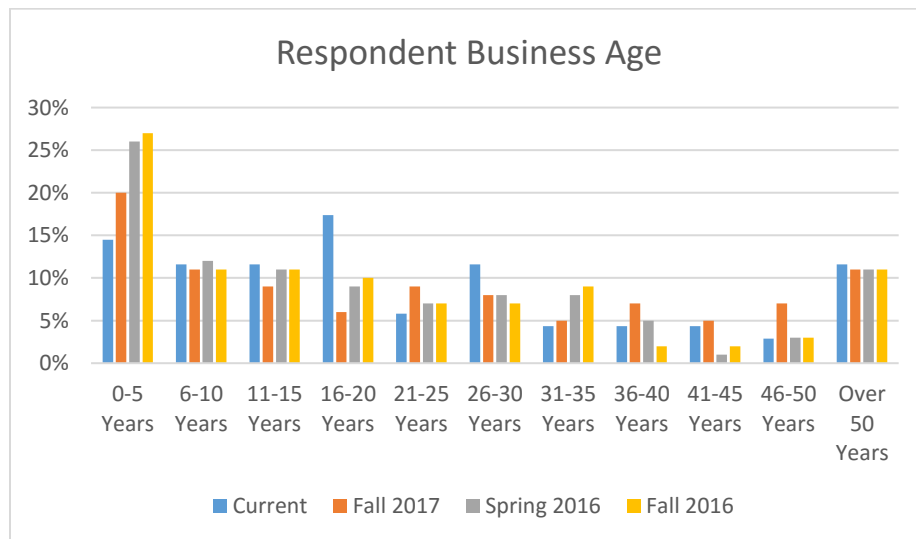
ZIP	Count	%	Location
98201	11	15.7%	Everett
98290	10	14.3%	Snohomish
98270	6	8.6%	Marysville
98223	5	7.1%	Arlington
98292	5	7.1%	Stanwood
98294	4	5.7%	Sultan
98258	3	4.3%	Lake Stevens
98272	3	4.3%	Monroe
98282	3	4.3%	Camano Island
98036	2	2.9%	Lynnwood
98241	2	2.9%	Darrington
98256	2	2.9%	Index
98275	2	2.9%	Mukilteo
98020	1	1.4%	Edmonds
98077	1	1.4%	Woodinville
98087	1	1.4%	Lynnwood
98112	1	1.4%	Seattle
98113	1	1.4%	Seattle
98203	1	1.4%	Everett
98204	1	1.4%	Everett
98206	1	1.4%	Everett
98239	1	1.4%	Coupeville
98259	1	1.4%	North Lakewood
98293	1	1.4%	Startup
98296	1	1.4%	Snohomish
Total	70	100.0%	

Q13: How many years has your business been in operation?

While a majority of the businesses are relatively young (55 percent of respondents have been in operation for 20 years or less), about 19 percent of businesses have been in operation for over 40 years.

Looking to the historical data, the proportion of respondents representing new businesses (0-5 years in operation) has been steadily decreasing, from 27 percent in the baseline period to 14 percent in the current period. The current period also shows a larger proportion than any other period of respondents from businesses age 16-20 years (17 percent) and 26-30 years (12 percent). The proportion of respondents from older businesses (in operation for over 40 years) has decreased slightly from last period, but remained relatively stable since the baseline period.

Years in Operation	Current	Fall 2017	Spring 2016	Fall 2016
0-5 Years	14%	20%	26%	27%
6-10 Years	12%	11%	12%	11%
11-15 Years	12%	9%	11%	11%
16-20 Years	17%	6%	9%	10%
21-25 Years	6%	9%	7%	7%
26-30 Years	12%	8%	8%	7%
31-35 Years	4%	5%	8%	9%
36-40 Years	4%	7%	5%	2%
41-45 Years	4%	5%	1%	2%
46-50 Years	3%	7%	3%	3%
Over 50 Years	12%	11%	11%	11%
N =	69	98	385	251



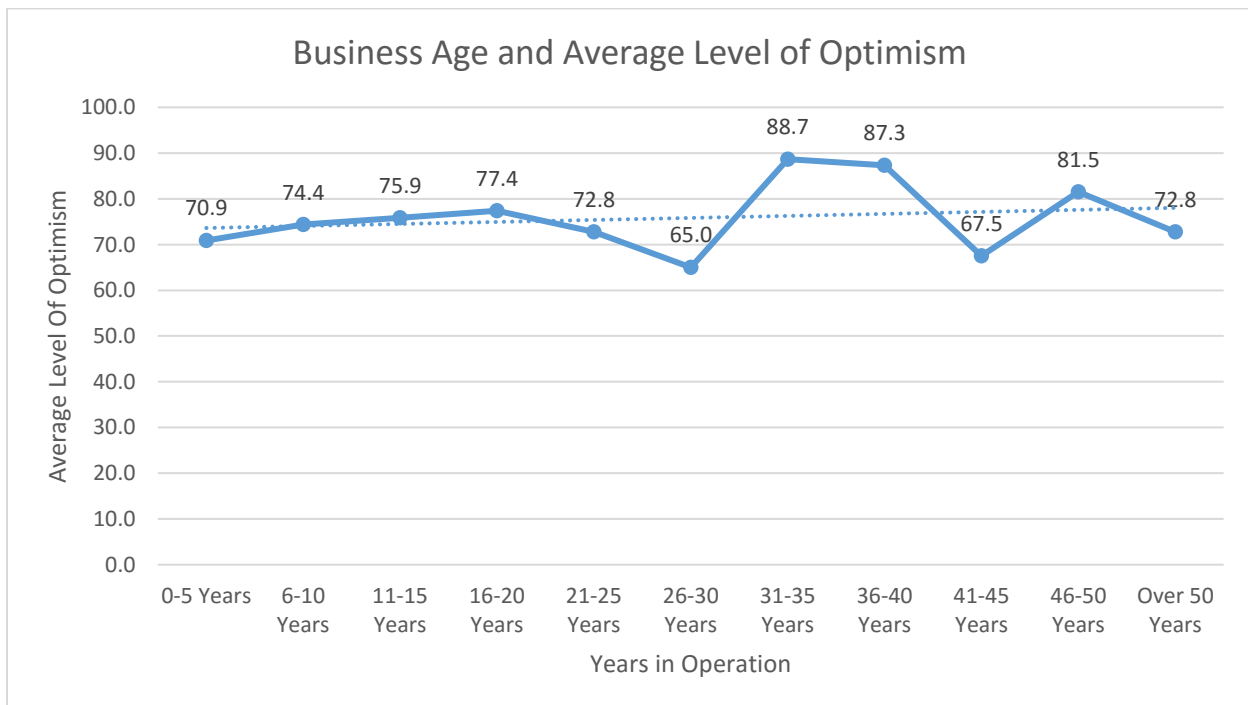
Optimism and Business Age

When comparing years of business operation to the average level of optimism in each business age bracket, it appears that younger businesses are slightly less optimistic than older ones (see overall trend line). It should be noted that there is much more fluctuation in average levels of optimism in businesses more than 25 years old, indicating that factors other than business age could be affecting optimism levels. Concerning businesses that are 20 years or younger, it appears that average optimism consistently grows with business age – this could possibly be a result of businesses feeling more confident and optimistic as they become more established.

When evaluating this data, it is critical to understand the data limitations that exist. Some business age brackets contain only 2 or 3 respondents from the Survey and their corresponding levels of optimism. While the following figure is interesting, it offers only a snapshot of the data collected and not any type of statistical sample of all businesses within Snohomish County of that age.

The process of becoming stable is challenging for many businesses – owners are likely to be stressed which may manifest itself as lower optimism. This expected behavior would produce a soft U shaped data representation where newer businesses are very optimistic, decline in optimism and then recover their level of optimism as they go through a transition of becoming stable through a number of years. However, the general trend in the data from this period’s Survey shows that very new businesses (0-5 years) have a lower-than-average level of optimism, and many middle-aged businesses are much more optimistic than average.

The fluctuation in optimism of businesses over 25 years old could reflect the uncertainty when businesses are going through transitions in leadership. However, since each age bracket may represent only a few respondents (especially in the older age categories), we hesitate to draw any definite conclusions from this data.



Q14: How many employees does your company have? (Estimates are acceptable)

Information regarding the number and type of employees in a community are useful in the long term. The type of employment and shifts over time reveals the health of the overall economy and industries represented in the survey.

The respondents of the current survey represent smaller businesses than surveys from other periods – the average company from the current survey has around 15 full time employees and 4 part time employees company wide.

Q14A: Full Time - Company Wide

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Current	1	92	14.44	2.74	62
Fall 2016	1	1000	30.91	112.74	81
Spring 2016	1	23400	115.67	1380.40	292
Fall 2015	1	2500	42.96	261.61	101

Q14B: Full Time – Snohomish County

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Current	1	92	15.81	2.99	52
Fall 2016	1	200	17.23	31.40	73
Spring 2016	1	400	21.06	53.74	192
Fall 2015	1	2000	47.43	234.48	101

Q14C: Part Time – Company Wide

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Current	1	25	3.73	0.77	41
Fall 2016	1	200	8.42	26.06	64
Spring 2016	1	3000	42.60	274.84	178
Fall 2015	1	220	12.3	32.87	101

Q14D: Part Time – Snohomish County

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Current	1	20	3.08	0.56	39
Fall 2016	1	200	6.1	26.22	58
Spring 2016	1	530	11.15	51.90	118
Fall 2015	1	1600	30.6	195.56	101

Q15: Do you have workers impacted by the State's new minimum wage law?

Approximately 16 percent of respondents report that their business has workers impacted by the State's new minimum wage law. This represents businesses from Retail Trade, Manufacturing, Other Services (except Public Administration), Agriculture/Forestry/Fishing/Hunting, and Wholesale Trade industries.

Answer	%	Count
Yes	16%	11
No	79%	55
Unsure	6%	4
Total	100%	70

Industry	%	Count of "Yes" to Q15
Retail Trade	36%	4
Manufacturing	18%	2
Other Services, except Public Administration	18%	2
Agriculture, Forestry, Fishing and Hunting	9%	1
Wholesale Trade	9%	1
Not reported	9%	1
Total	100%	11

Q15A: Will your business be making adjustments to compensate for increased wages to staff?

Of the respondents who report having workers impacted by the State's new minimum wage law in the previous question, most (82 percent) report that their business will be making adjustments to compensate for increased wages to staff.

Answer	%	Count
Yes	82%	9
No	9%	1
Unsure	9%	1
Total	100%	11

Q15B: How will you make these adjustments to compensate for increased wages to staff? Select all that apply

Of the respondents that report in the previous question that their business will be making adjustments to compensate for increased staff wages, most will be making this adjustment by increasing prices (88 percent) and/or reducing other company expenses (63 percent). Only one quarter (25 percent) report that their business will be compensating for increased wages by adjusting their product components or processes.

Answer	%	Count
Product component or process	25%	2
Increase prices	88%	7
Reduce other company expenses	63%	5
Total	100%	8

Q16: Do you rely on foreign workers in your business (H1B or other similar visa programs)?

Only 1 respondent reports that their business relies on foreign workers – this respondent is from the Agriculture, Forestry, Fishing and Hunting Industry.

Answer	%	Count
Yes	1%	1
No	99%	68
Total	100%	69

Q17: Do you import items for your business to sell or use in your manufacturing process?

18 percent of respondents say that their business imports items to sell or use in their manufacturing process, while 82 percent do not. Those who responded that their business imports items to sell or use in their manufacturing process come from Manufacturing, Construction, Wholesale Trade, Other Service (except Public Administration), and Real Estate/Rental/Leasing Industries.

Answer	%	Count
Yes	18%	12
No	82%	56
Total	100%	68

Industry	%	Count of "Yes" to Q17
Manufacturing	33%	4
Construction	25%	3
Wholesale Trade	25%	3
Other Services, except Public Administration	8%	1
Real Estate and Rental and Leasing	8%	1
Total	100%	12

Q18: Do you export items for sale from your business?

13 percent of respondents say that their business exports items for sale, and 87 percent do not. Respondents who report that their businesses export items for sale come from Manufacturing, Wholesale Trade, Professional/Scientific/Technical Services, Agriculture/Forestry/Fishing/Hunting, and Construction industries.

Answer	%	Count
Yes	13%	9
No	87%	59
Total	100%	68

Industry	%	Count of "Yes" to Q18
Manufacturing	22%	2
Wholesale Trade	22%	2
Professional, Scientific, and Technical Services	22%	2
Agriculture, Forestry, Fishing, and Hunting	22%	2
Construction	11%	1
Total	100%	9

Q19: Which of the following functions is the closest to your role within this business?

Determining the respondents' role within the business is a useful tool to understand their demographics. Compared to previous study periods, this period there is a significantly greater proportion of business owners responding to the survey (72 percent), and less managers (4 percent) or other primary organizational leaders (0 percent). Overall, all respondents were screened to make sure they were primary decision makers within their companies, indicating that all responses obtained in this survey are reliable and informed.

Period	Owner	CEO or President	Controller or CFO	Manager	Other primary organizational leader	N
Current	72%	16%	7%	4%	0%	69
Fall 2016	65%	15%	6%	11%	2%	98
Spring 2016	65%	13%	5%	9%	7%	255

Survey Methodology

The Center for Economic and Business Research, located within the College of Business and Economics at Western Washington University, conducted the research and analysis services for this survey.

The Survey is designed with three purposes in mind: (1) to provide on-going observations of the current business environment, to be compared with baseline observations previously gathered; (2) to collect data that can be used to forecast the future business environment; (3) to assess business needs based upon self-reported characteristics, perceptions, and concerns. To accomplish these, the Survey integrates questions dealing with the businesses' current condition with questions regarding the future of the business. Current condition questions include business location (ZIP Code), years of operations, and number of employees. Future oriented questions include level of optimism for the local economy as well as the business in particular, revenue changes, investment changes, and different growth areas within the business. Since this is a post-election period study, the Survey also includes politically oriented questions. This report lists all questions and reports basic descriptive statistics.

The Center utilized an online survey methodology to obtain responses from local businesses. A web based survey was e- mailed to an estimated 3,600 business contacts primarily located in Snohomish County, but with a sample set throughout the region. We screened respondents so that we only surveyed those whose businesses have a significant presence in Snohomish County *and* are primary decision makers in their businesses. Up to four reminder e-mail notices were sent to the business contacts. The survey was left open for approximately one month, between the second week of December 2016 and the second week of January 2017.