

Center for Economic and Business Research

Business Optimism Survey Report – Spring 2017

May 11, 2017



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In Collaboration With



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Contents

- Executive Summary..... 3
- Clarifying Notes..... 4
- Survey Results 5
 - Q1: How would you rate the Snohomish County economy for 2017? 5
 - Q2: When thinking about the regional economy, what are your expectations for the next 12 months?6
 - Q3: What is your level of optimism for your business prospects in the next 12 months?..... 7
 - Q4: 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? 8
 - Q5: 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..... 9
 - Q6: 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? 10
 - Q7: When thinking about the next five years, what type of growth, if any, do you expect? (Check all that apply)..... 11
 - Q8: 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)..... 12
- Survey Methodology..... 13

Executive Summary

The 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 fifth report in a longitudinal quarterly series that makes inquiries of businesses from the perspective of employees in leadership roles within community businesses.

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 averaged 77.4 out of 100**, where 100 represents the most optimistic view. This represents the **most optimistic rating of any survey period** collected to date, and a 3 percent increase in optimism from the previous study. Contributing factors include, but are not limited to:
 - **100 percent of respondents rate the Snohomish County economy in 2017 positively** (good or extremely good), with absolutely no respondents rating the economy as poor or extremely poor.
 - **68 percent of businesses expect revenues to rise** from the previous year, 27 percent expect revenues to stay about the same as last year, and only 5 percent expect revenues to decrease.
 - This period represents the highest percentage of respondents expecting increased revenue from pricing (21 percent) and the lowest percentage of respondents expecting their revenue to increase due to increased sales from existing customers (15 percent). This is an important distinction since increasing prices on the same products to the same customers is another expression of overall confidence in the availability of disposable income at the consumer and business level. At the same time, to not expect more customers also expresses an opinion of overall market saturation for the products offered.
 - 67 percent expect to invest about the same as last year (10 percent increase from last quarter), 28 percent of respondents expect to invest more in their businesses than last year (1 percent increase from last quarter), and **only 4 percent expect to invest less than last year (12 percent decrease from last period)**.
- Revenue generated by the business and owners' personal cash remain the most accessible sources of funding, while borrowing from family or friends and selling business assets remain the least accessible forms of funding for businesses.
- The demographic information about respondents can be found in the appendix to this report. The following summarizes notable demographic changes from previous survey periods:
 - This study period represents respondents from a **wider range of industries** than the previous period.
 - Respondents in the current survey represent **slightly older businesses** than the previous period.
 - Current respondents also represent **larger companies** than the previous 2 periods, based on number of full and part time employees.

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

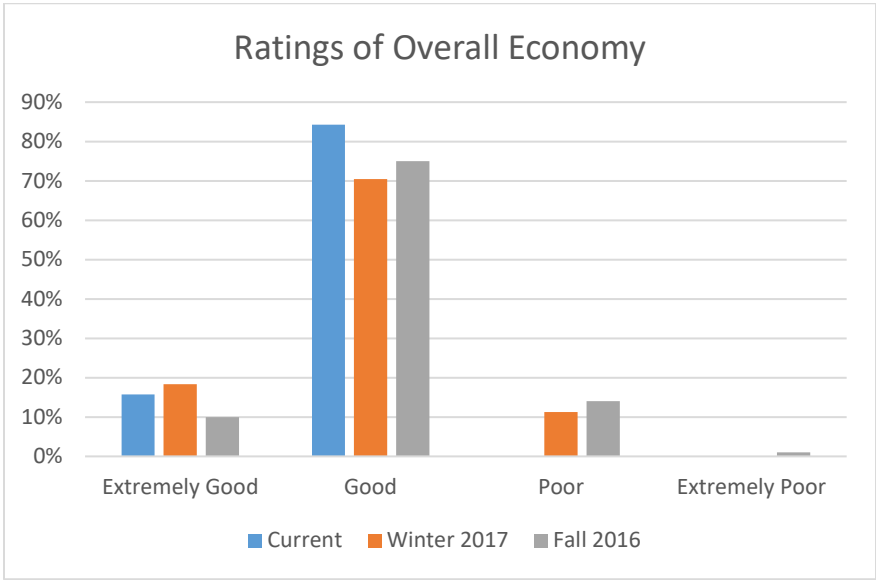
Q1: How would you rate the Snohomish County economy for 2017?

100 percent of respondents rate the Snohomish County economy in 2017 as good or extremely good, with absolutely no respondents rating the economy as poor or extremely poor. This indicates an exceptional level of satisfaction with the local economy so far this year.

Historically, this is the most positive rating of the Snohomish County economy out of any of the survey periods. While the category of extremely good has remained relatively stable (down 2 percent since last quarter), it seems that most of the decrease in negative responses (poor or extremely poor) has reflected in an increase in “good” responses (up 14 percent from last quarter). This question has been asked since the Fall 2016 study.

The demographics of companies responding should be kept in mind when considering this and the following results. The group of respondents this period represent a larger average company size (42 full time employees company-wide) than Winter 2017 and Fall 2016 respondents (14 employees and 31 employees, respectively), but a similar average company size to Fall 2015 respondents (43 employees) and smaller average company size than Spring 2016 respondents (116 employees). This period’s respondents also represent more mature companies than previous periods – 18 percent of respondents represented a company over 50 years old, compared to the 12 percent of respondents in Winter 2017, and 11 percent of respondents in the first 3 periods. It should also be noted that survey screening based on business presence in Snohomish County and position in company (decision-maker) was inserted into the study beginning in the Fall 2016 study. Demographic information can be found in the Appendix.

Period	Extremely Good	Good	Poor	Extremely Poor	N
Current	16%	84%	0%	0%	70
Winter 2017	18%	70%	11%	0%	71
Fall 2016	10%	75%	14%	1%	99



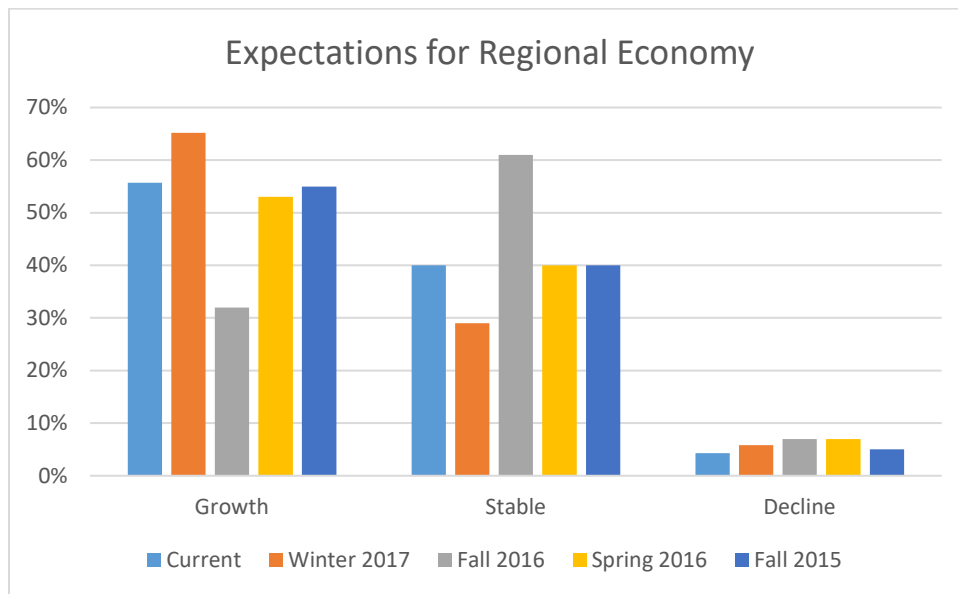
Q2: When thinking about the regional economy, what are your expectations for the next 12 months?

More than half (56 percent) of the respondents expect regional economic growth for the next 12 months, while 40 percent expect the local economy to remain stable over the same period. Only 4 percent of respondents expect the local economy to decline, which is historically the lowest percentage of respondents in this category, but still relatively consistent (within 3 percent) with previous periods.

These expectations for the regional economy are less optimistic than the previous period, Winter 2017 (those expecting growth down 9 percent, those expecting stability up 11 percent), and more optimistic than Fall 2016, but very similar to Spring 2016 and Fall 2015.

While we would expect some fluctuations from quarter to quarter due to the self-selection bias created by the survey, we ponder if the decline noted in this study is a reflection of the uncertainty of many different public policies at the state and federal level. At the conclusion of this study major tax issues were unresolved in Olympia and a complete lack of clarity regarding federal policies filled the news stream. Businesses may well be taking the ‘wait and see’ approach until those issues that impact its day-to-day operations are clearer.

Period	Growth	Stable	Decline	N
Current	56%	40%	4%	70
Winter 2017	65%	29%	6%	69
Fall 2016	32%	61%	7%	99
Spring 2016	53%	40%	7%	399
Fall 2015	55%	40%	5%	262

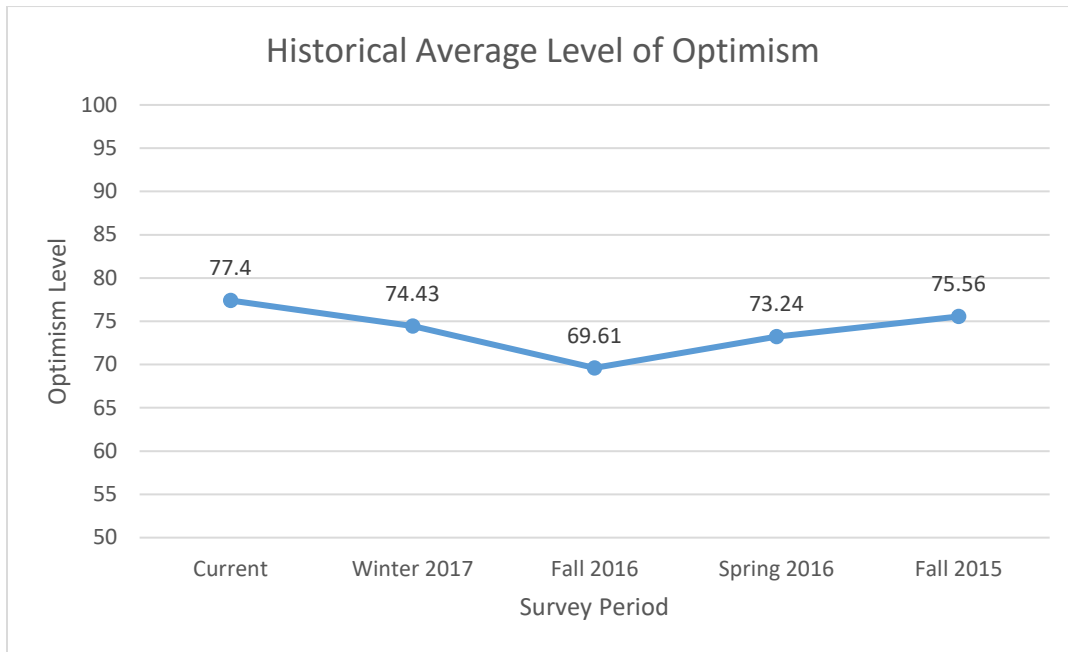


Q3: What is your level of optimism for your business prospects in the next 12 months?

The average level of optimism on a scale of 1 to 100 (100 representing the most optimistic) was reported as 77.4, 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.

There has been a significant and steady increase in optimism since Fall 2016, when average optimism was reported as 69.61. In fact, this period represents both the highest average level of optimism (77.4) and the closest spread of responses to this average (standard deviation of 14.84) of any period.

Period	Average Value	Standard Deviation	N
Current	77.4	14.84	67
Winter 2017	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

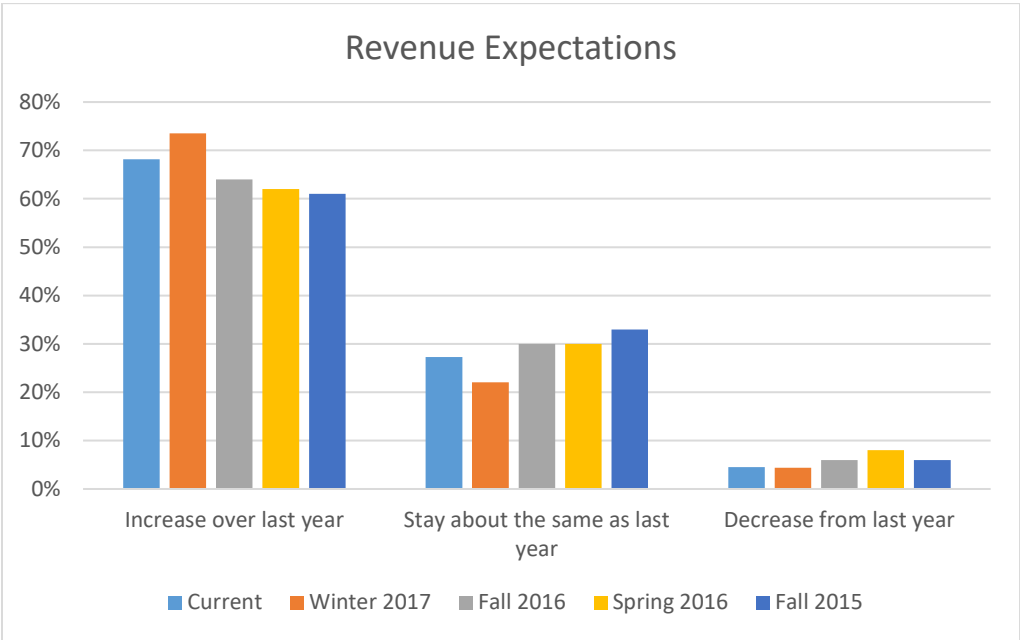


Q4: In thinking about your business in particular, do you expect your revenues to increase over the last year, stay about the same as last year, or decrease from last year?

Most respondents (68 percent) expect revenues to increase over last year, while 27 percent expect about the same level of revenue as last year, and only 5 percent of respondents expect a decrease in revenue from last year.

This does represent a decrease in revenue expectations since last period – the percentage of respondents who expect increases in revenue has dropped by 6 percent (from 74 percent in Winter 2017), and those who expect revenue to stay the same has increased by 5 percent (from 22 percent). However, the revenue expectations are more still optimistic than the first three periods.

Period	Increase over last year	Stay about the same as last year	Decrease from last year	N
Current	68%	27%	5%	66
Winter 2017	74%	22%	4%	68
Fall 2016	64%	30%	6%	98
Spring 2016	62%	30%	8%	399
Fall 2015	61%	33%	6%	262



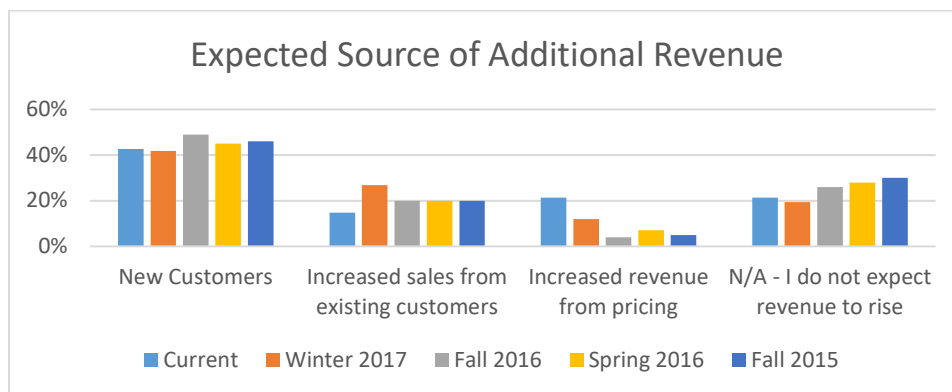
Q5: If you expect your revenue to rise from last year, where do you expect the majority of it to come from? New customers, increased sales from existing customers, increased revenue from pricing, or no expected rise in revenue.

In the current period, 21 percent of respondents do *not* expect their business revenue to rise from last year. While this is not quite as optimistic as last period (only 19 percent of respondents did not expect revenue to rise), overall there has been a downward trend in the percentage of respondents who are either neutral or pessimistic about future revenue. This echoes results from other questions this period which show a general 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. Those expecting increases in revenue from new customers has remained stable since last period (up 1 percent). However, this period represents the lowest percentage of respondents expecting increased sales from existing customers (15 percent) and the highest percentage of respondents expecting increased revenue from pricing (21 percent).

This is an important distinction and potential indicator. If companies expect that the most likely source of increased revenue is from price increases it means they believe customers can afford it (increased disposable income). However, coupled with what would generally be seen as a good indicator are two negative ones. If companies do not expect increasing sales to existing customers or acquiring new customers it may also indicate that they are at their maximum market potential from a demand or population/income perspective or buying behavior trends. It is a complex issue, but worthy of sincere thought on the implications for the local economy.

Period	New Customers	Increased sales from existing customers	Increased revenue from pricing	N/A - I do not expect revenue to rise	N
Current	43%	15%	21%	21%	61
Winter 2017	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



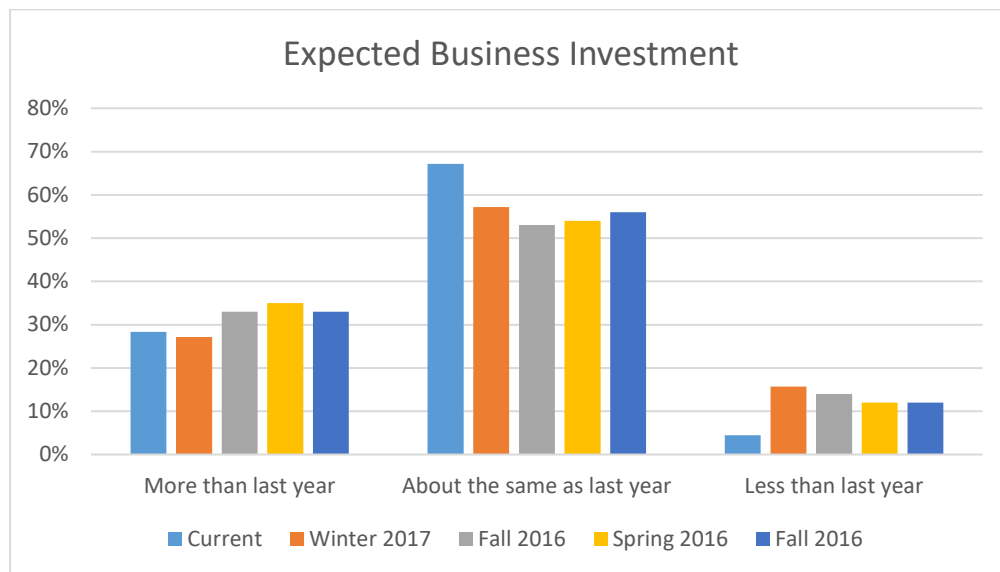
Q6: In thinking about your business in particular, do you expect to invest in the business more than last year, about the same as last year, or less than last year?

Over half (67 percent of respondents) expect to invest about the same as last year, while 28 percent expect to invest more than last year. This suggests *at least* stable investment into local businesses in the near future and potential growth due to the 28 percent of respondents who expect capital injection to increase.

Notably, this period represents the lowest proportion of respondents of any period who expect to invest *less* than last year (4 percent). This decrease in pessimism about investment expectations, even though many still remain neutral, shows that businesses are feeling generally more optimistic than previous periods.

Of note here is that companies are expecting to raise funds for this investment activity from increased prices which may or may not be supported by the market they serve. While they indicate they want to make the investment, macro-economic issues may ultimately drive the decision.

Period	More than last year	About the same as last year	Less than last year	N
Current	28%	67%	4%	67
Winter 2017	27%	57%	16%	70
Fall 2016	33%	53%	14%	98
Spring 2016	35%	54%	12%	399
Fall 2015	33%	56%	12%	264

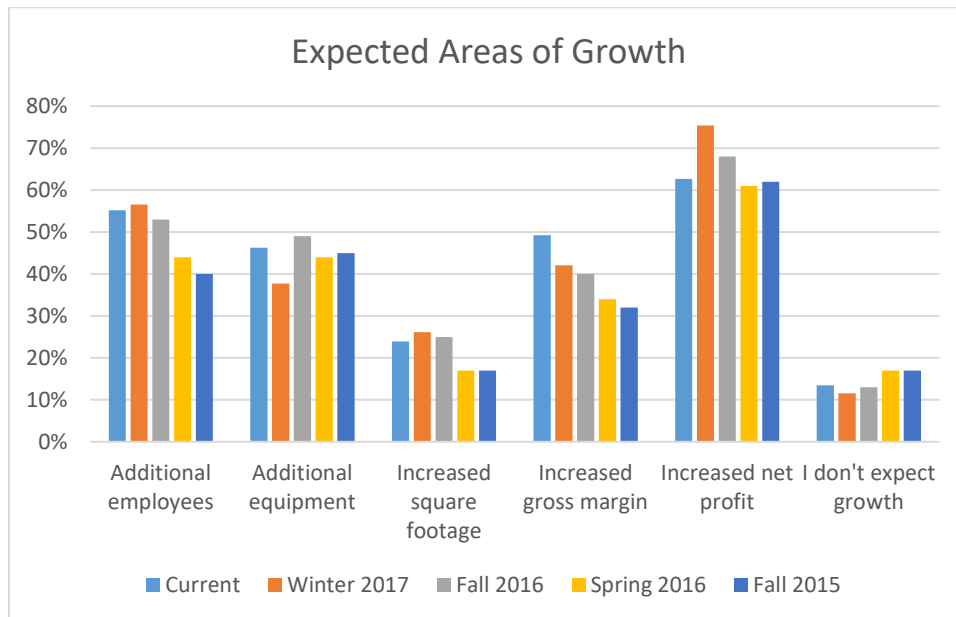


Q7: When thinking about the next five years, what type of growth, if any, do you expect? (Check all that apply)

Many respondents (63 percent) expect increased net profit, however this is a decrease in net profit expectations since the previous two periods. The only area of growth that has experienced a steady and significant increase compared to other periods is increased gross margin (49 percent of respondents). The combination of less respondents expecting increased net profit and more respondents expecting increased gross margin is likely a result of increased operation costs.

Compared to the last two periods, Winter 2017 and Fall 2016, the proportion of respondents expecting growth via additional employees and increased square footage has remained relatively stagnant (staying between 53 and 57 percent for employees, and between 24 and 26 percent for square footage). Similarly, the percent of respondents who don't expect growth in any of these categories has remained in the range of 12 to 13 percent of respondents. In terms of expectations of additional equipment, last period saw an unusual dip in expectations (down to 38 percent), which has gone back up this period to a percentage of respondents similar the first three periods (between 44 and 49 percent).

Period	Additional employees	Additional equipment	Increased square footage	Increased gross margin	Increased net profit	I don't expect growth	N
Current	55%	46%	24%	49%	63%	13%	67
Winter 2017	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

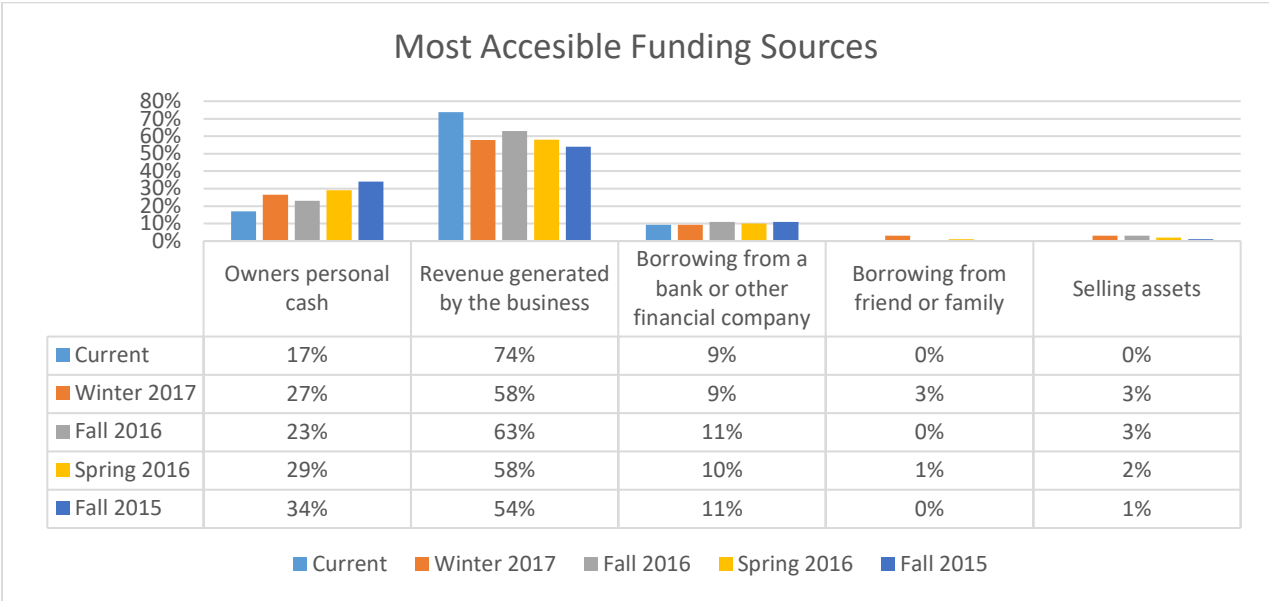


Q8: When your business needs additional capital, how would you rank these sources of funding as most accessible to you? (Ranked on scale from 1 to 5)

A majority of the respondents (74 percent) reported revenue generated by the business to be the most accessible source of additional capital. Similar to previous studies, personal funding by the owner or borrowing from a bank or other financial company are also reported as being somewhat accessible (17 and 9 percent of respondents rank as most accessible, respectively). Borrowing from friends or family, or selling assets were reported as the least accessible amongst the options (0 percent of respondents).

Compared to previous periods, the overall rankings of funding sources have remained the same (business revenue as most accessible source, borrowing from friends and family or selling assets as least accessible sources), but the proportion of respondents ranking in this order has increased as well. Previous periods showed at least some respondents listing borrowing from friends and family as their most accessible source, but in the current period absolutely none did. Additionally, this period represented a 16 percent increase since last period (58 percent) in respondents listing business revenue as their most accessible funding source.

Question	Most Accessible	Somewhat Accessible	Least Accessible	Total		
Owners personal cash	17%	40%	28%	12%	3%	65
Revenue generated by the business	74%	18%	8%	0%	0%	65
Borrowing from a bank or other financial company	9%	34%	34%	12%	11%	65
Borrowing from friend or family	0%	3%	8%	45%	45%	65
Selling assets	0%	5%	23%	31%	42%	65



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

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 3,500 business contacts primarily located in Snohomish County, but with a sample set throughout the region. An anonymous survey link was also listed in the Economic Alliance of Skagit County newsletter, which accounted for approximately 9 respondents. 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 three reminder e-mail notices were sent to the business contacts. The survey was left open for approximately one month, between the last week of March 2017 and the last week of April 2017.

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Appendix:
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Demographics

This appendix describes demographic information regarding those responding to the Spring Quarter Business Optimism Survey. This information was obtained through survey questions which followed the business optimism questions that are summarized in the main report.

The changing demographics of respondents from survey period to survey period could provide insight into changes in optimism over time, and are helpful to keep in mind when considering the results of the survey.

Industry

Q9: From the pull down list, please choose the industry group your company is most closely identified with.

Retail Trade and Construction are the most represented industries in this survey, at 22.7 percent and 18.2 percent of total respondents, respectively. Other notable industries include Manufacturing (10.6 percent), Real Estate Rental and Leasing (10.6 percent), and Health Care and Social Assistance (7.6 percent).

Compared to last survey period, the current period is composed of significantly more respondents from Retail Trade (previously 16.7 percent), and much less from Professional, Scientific and Technical Services (previously 18.2 percent). This period represents respondents from a wider range of industries – there are now respondents from Health Care and Social Assistance, Utilities, Finance and Insurance, Educational Services, and Accommodation and Food Services (in the previous survey, these industries were not represented at all). Unfortunately, there were no respondents from 4 industries – Mining, Quarrying, and Oil and Gas Extraction, Information, Administrative and Waste Services, or Public Administration.

Compared to the Snohomish County's employment data from the Employment Security Department for the third quarter of 2016, it appears that Retail Trade, as well as Real Estate and Rental and Leasing, were significantly over-represented industries in this survey. On the other hand, Health Care and Social Assistance, Wholesale Trade, Accommodation and Food Services, as well as Administrative and Waste Services were significantly under-represented. While there are over and under-representations of some industries, it is apparent that this period's survey was much more representative of Snohomish County's actual proportion of firms based on industry than last period.

Industry	Current %	Current Count	Winter 2017 %	Winter 2017 Count	% Firms by Industry, Q3 2016
Retail Trade	22.7%	15	16.7%	11	8.1%
Construction	18.2%	12	21.2%	14	15.8%
Manufacturing	10.6%	7	9.1%	6	3.9%
Real Estate and Rental and Leasing	10.6%	7	13.6%	9	2.9%
Health Care and Social Assistance	7.6%	5	0.0%	0	23.0%
Professional, Scientific and Technical Services	6.1%	4	18.2%	12	9.6%
Other Services, except Public Administration	6.1%	4	4.6%	3	7.5%
Utilities	3.0%	2	0.0%	0	0.0%
Finance and Insurance	3.0%	2	0.0%	0	2.8%
Educational Services	3.0%	2	0.0%	0	1.3%
Agriculture, Forestry, Fishing and Hunting	1.5%	1	3.0%	2	1.1%
Wholesale Trade	1.5%	1	4.6%	3	5.6%
Transportation and Warehousing	1.5%	1	3.0%	2	1.6%
Management of Companies and Enterprises	1.5%	1	1.5%	1	0.3%
Arts, Entertainment, and Recreation	1.5%	1	1.5%	1	1.0%
Accommodation and Food Services	1.5%	1	0.0%	0	6.9%
Mining, Quarrying, and Oil and Gas Extraction	0.0%	0	0.0%	0	0.0%
Information	0.0%	0	1.5%	1	1.2%
Administrative and Waste Services	0.0%	0	0.0%	0	6.5%
Public Administration	0.0%	0	1.5%	1	0.8%
Total	100%	66	100.0%	66	99.9%

Location

Q10: What ZIP code is your business headquartered in?

The survey screened respondents to include only businesses that do have a significant presence in Snohomish County. However, responses from this question show that businesses responding are headquartered in various areas around the Puget Sound.

The majority of businesses, or 42 out of the 68 respondents (62 percent), are headquartered in ZIP codes that correspond to parts of, or all of, Arlington, Stanwood, Everett, Marysville, Lake Stevens, and Snohomish. This distribution is believed to be representative of businesses which have a significant presence in Snohomish County.

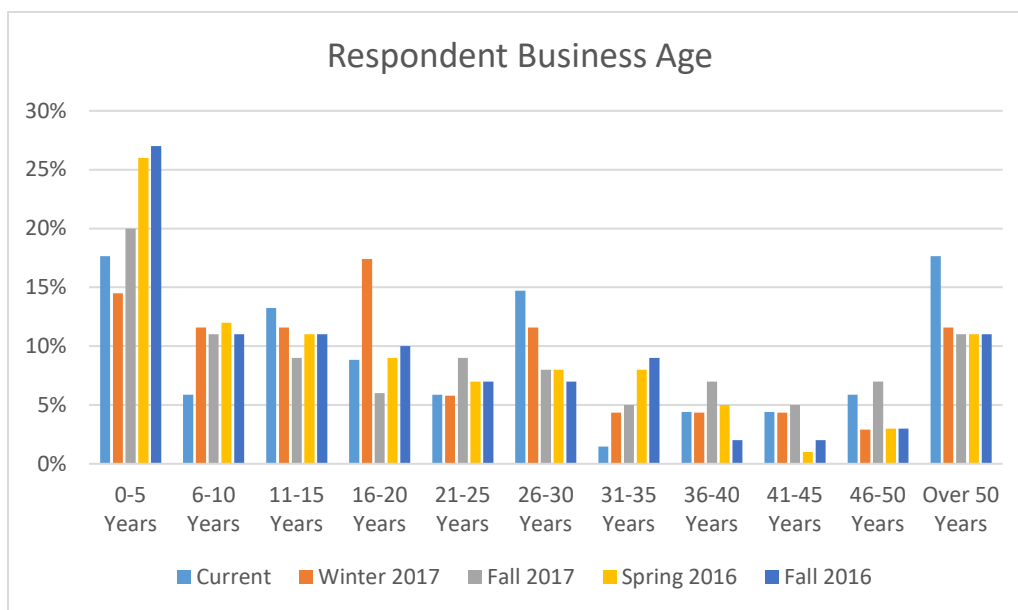
ZIP	Count	%	Location
98223	11	16.2%	Arlington
98292	7	10.3%	Stanwood
98201	7	10.3%	Everett
98270	5	7.4%	Marysville
98258	4	5.9%	Lake Stevens
98204	4	5.9%	Everett
98290	4	5.9%	Snohomish
98282	3	4.4%	Camano Island
98203	3	4.4%	Everett
98208	3	4.4%	Everett
98271	2	2.9%	Marysville
98275	2	2.9%	Mukilteo
98036	2	2.9%	Lynnwood
98294	1	1.5%	Sultan
98293	1	1.5%	Startup
98239	1	1.5%	Coupeville
98251	1	1.5%	Gold Bar
98296	1	1.5%	Snohomish
98287	1	1.5%	Silvana
98272	1	1.5%	Monroe
98274	1	1.5%	Mount Vernon
98012	1	1.5%	Bothell
98087	1	1.5%	Lynnwood
98133	1	1.5%	Seattle
Total	68	100%	

Business Age

Q11: How many years has your business been in operation?

Respondents in the current survey represent slightly older businesses than previous periods. 18 percent of businesses have been in operation for over 50 years, which is a 6 percent increase from the respondents last period and 7 percent increase from the first three survey periods. The number of new businesses responding has been decreasing each period – only 24 percent of businesses are 10 years old or younger, compared to 26 percent in Winter 2017, 31 percent in Fall 2016, and 38 percent in Spring 2016 and Fall 2015.

Years in Operation	Current	Winter 2017	Fall 2016	Spring 2016	Fall 2015
0-5 Years	18%	14%	20%	26%	27%
6-10 Years	6%	12%	11%	12%	11%
11-15 Years	13%	12%	9%	11%	11%
16-20 Years	9%	17%	6%	9%	10%
21-25 Years	6%	6%	9%	7%	7%
26-30 Years	15%	12%	8%	8%	7%
31-35 Years	1%	4%	5%	8%	9%
36-40 Years	4%	4%	7%	5%	2%
41-45 Years	4%	4%	5%	1%	2%
46-50 Years	6%	3%	7%	3%	3%
Over 50 Years	18%	12%	11%	11%	11%
N =	68	69	98	385	251

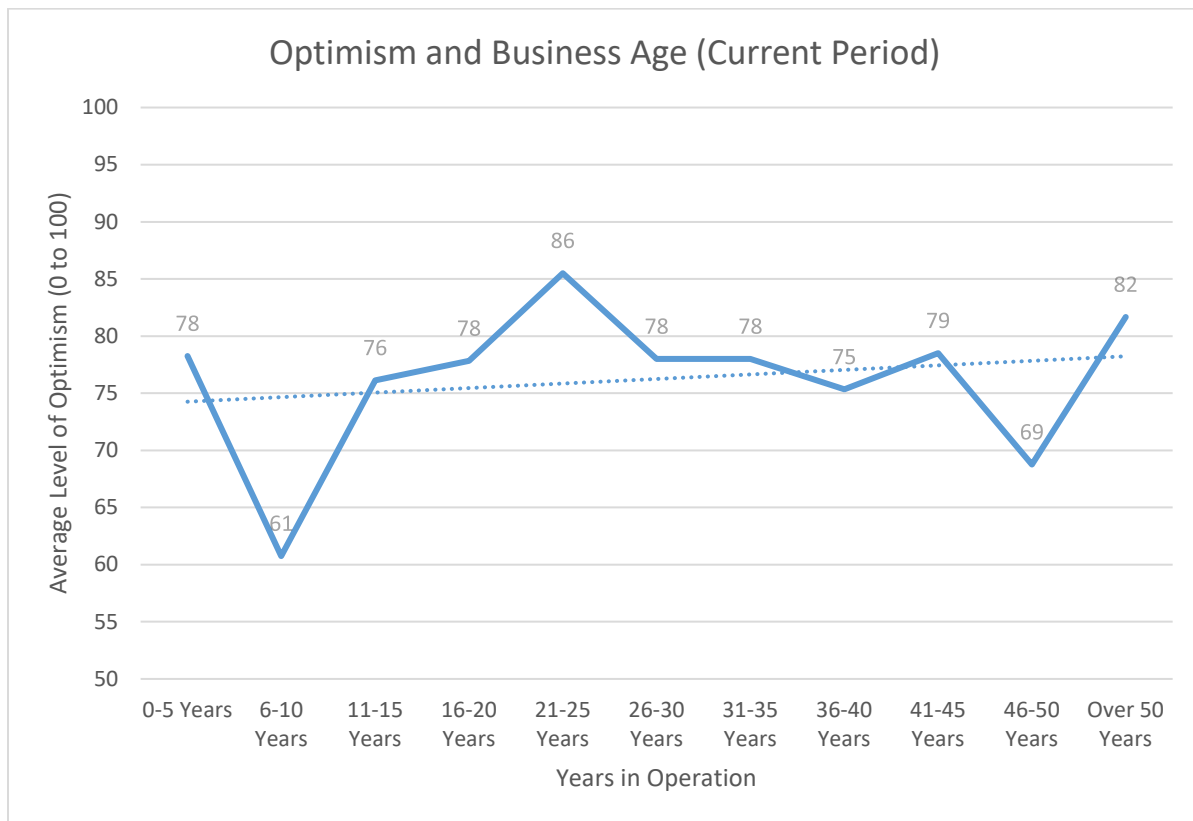


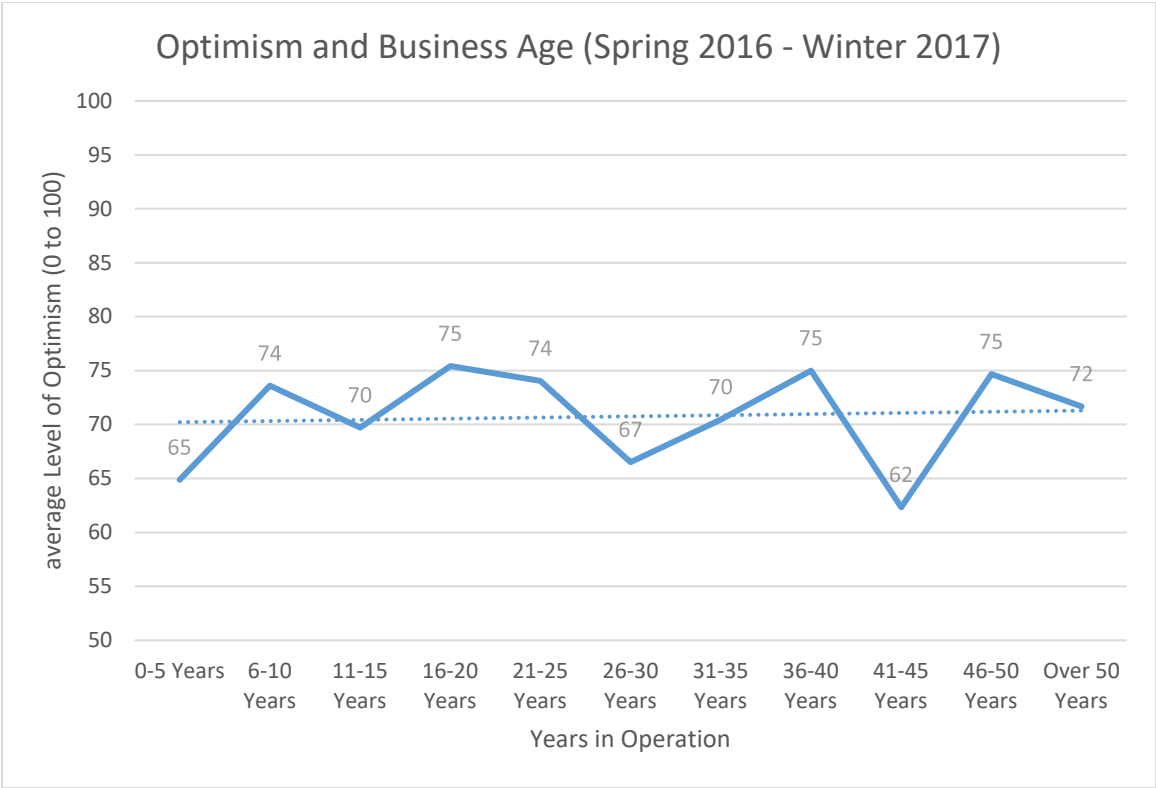
Optimism and Business Age

When comparing years of business operation to the level of optimism, it appears that there is a weak positive correlation between average optimism rating and business age. The process of becoming stable is challenging for many businesses which leads owners to be stressed which may manifest itself as lower optimism.

Compared to data from the previous year of surveys (Spring 2016-Winter 2017), it does not appear that the deviations from the mean level of optimism are consistent period to period. In the previous year, respondents whose businesses have been in operation 0-5 years and 41-45 years have had the lowest average levels of optimism. This quarter, respondents whose businesses have been in operation 6-10 years and 46-50 years have the lowest average levels of optimism.

However, when evaluating this data it is critical to understand the data limitations that exist. A single company may represent any one business age creating a data point that reflects only one person's opinion (in the current period). 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 following graphs represents the average level of optimism of businesses within each age range.





Company Size (Employees)

Q12: 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 can reveal the health of the overall economy and industries represented in the survey.

On average, the respondents of the current survey report an average of 42 full time employees and 11 part time employees company-wide, representing larger companies than the previous 2 periods.

Q12A: Full Time - Company Wide

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Current	1	600	41.55	104.18	53
Winter 2017	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

Q12B: Full Time – Snohomish County

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Current	1	600	30.71	89.38	48
Winter 2017	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

Q12C: Part Time – Company Wide

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Current	1	120	11.17	23.71	30
Winter 2017	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

Q12D: Part Time – Snohomish County

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Current	1	30	4.17	6.12	30
Winter 2017	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

Business Role

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 the context of their responses to the survey. Compared to previous study periods, this period there are less business owners responding to the survey than previous periods (60 percent of respondents, compared to 72 percent last period), and slightly more CEO/Presidents, Controller/CFOs, Managers, and other primary organizational leaders than last period. 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	60%	18%	9%	7%	6%	68
Winter 2017	72%	16%	7%	4%	0%	69
Fall 2016	65%	15%	6%	11%	2%	98
Spring 2016	65%	13%	5%	9%	7%	255