Briefing Paper
Market Indicators Quarterly Report

January 24th, 2011

The purpose of this report is to track and assess changes in key economic indicators in an attempt to gain a better understanding of how demand for Energy Trust programs will respond to changing market dynamics. By monitoring the behavior of several widely used macro-level indicators we hope to stay closely attuned to any signs of emergence from the recession, or further worsening of economic conditions, thereby providing Energy Trust program managers with the ability to respond to changes accordingly. As 2010 drew to a close, it was evident that neither national, nor local economies have been completely successful in generating the kind of robust growth necessary for a strong and lasting emergence from the economic recession, but substantial and meaningful positive movement had been seen in many key areas of the economy. Manufacturing continues to grow and expand, but unemployment remains stubbornly high in many parts of the country, notably so in our own region and state, as growth for many sectors has not been as rapid as needed for. This report focuses on the most recent economic data from the period September 2010 to December 2010.

1.1 Energy Trust Programmatic Indicators

Existing Homes Report

ETO Contact Center -

Figure 1.1

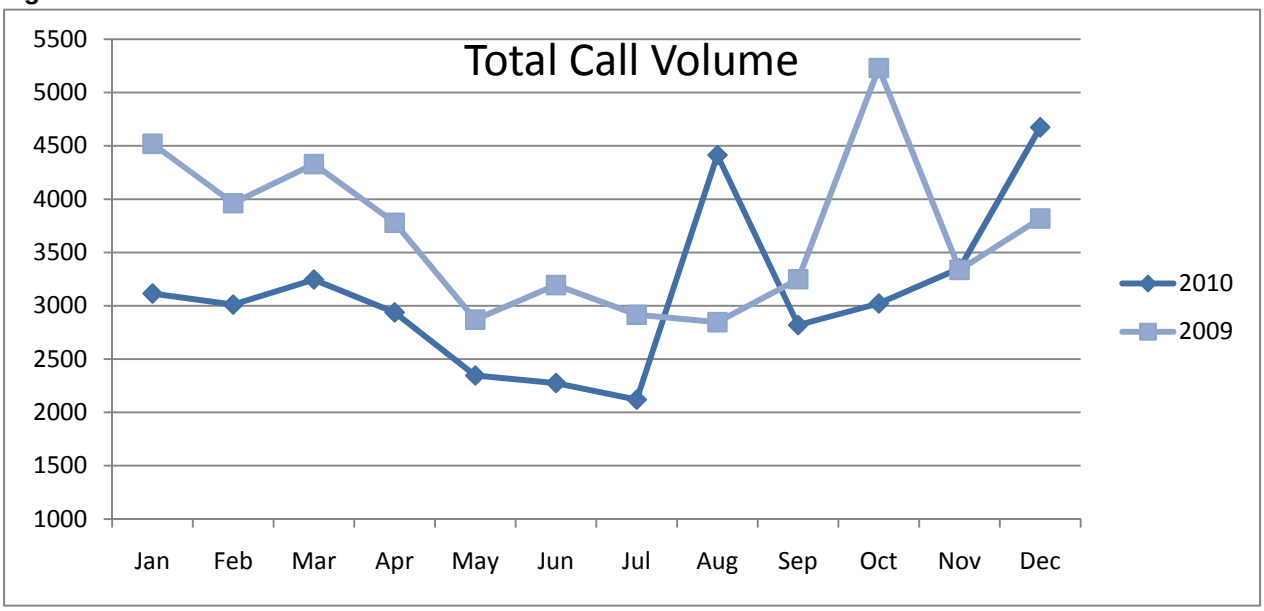


Figure 1.2

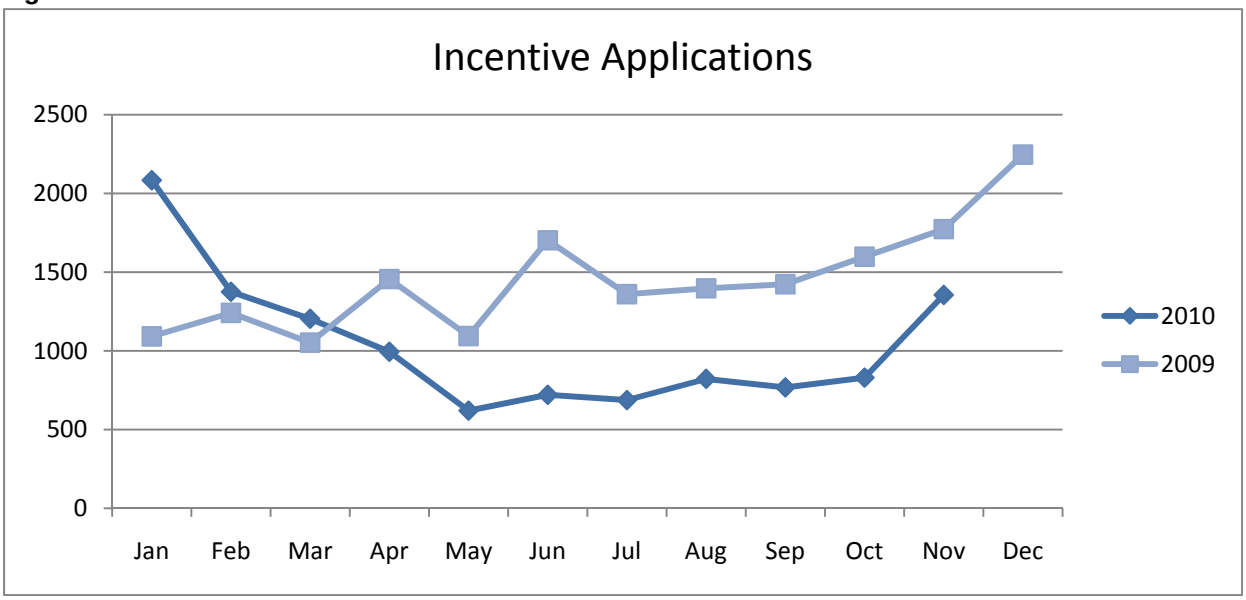
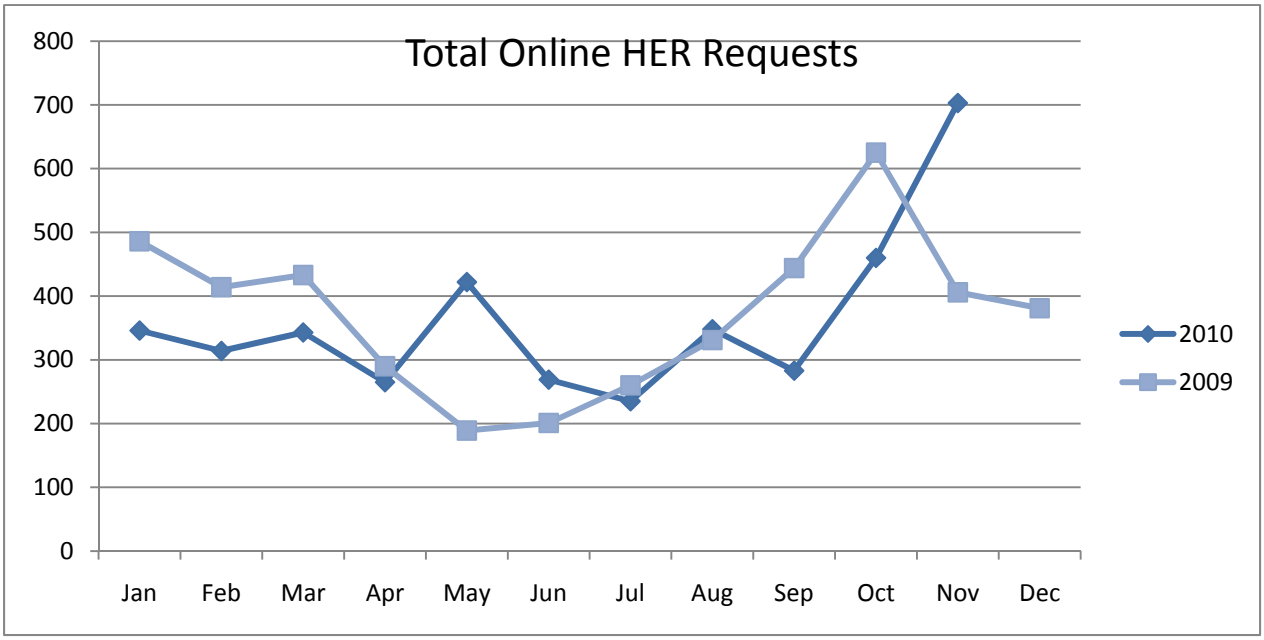


Figure 1.3



Inbound call volume to the Energy Trust Call Center in November was comparable to 2009, but as seen in figure 1.3, total online HER requests have been on the rise with 84.5 percent more requests in November 2010 than 2009. Additionally, the volume of incentive applications increased from the previous month in both October and November, although the overall level of applications is still down from 2009.

Gas and Electric Savings-

Figure 1.4

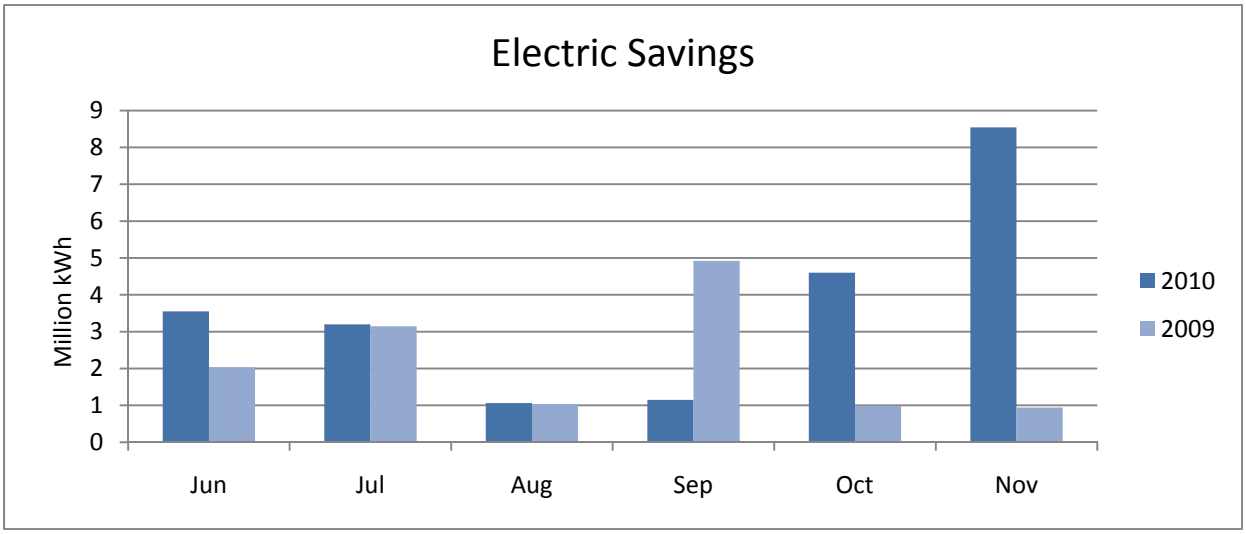
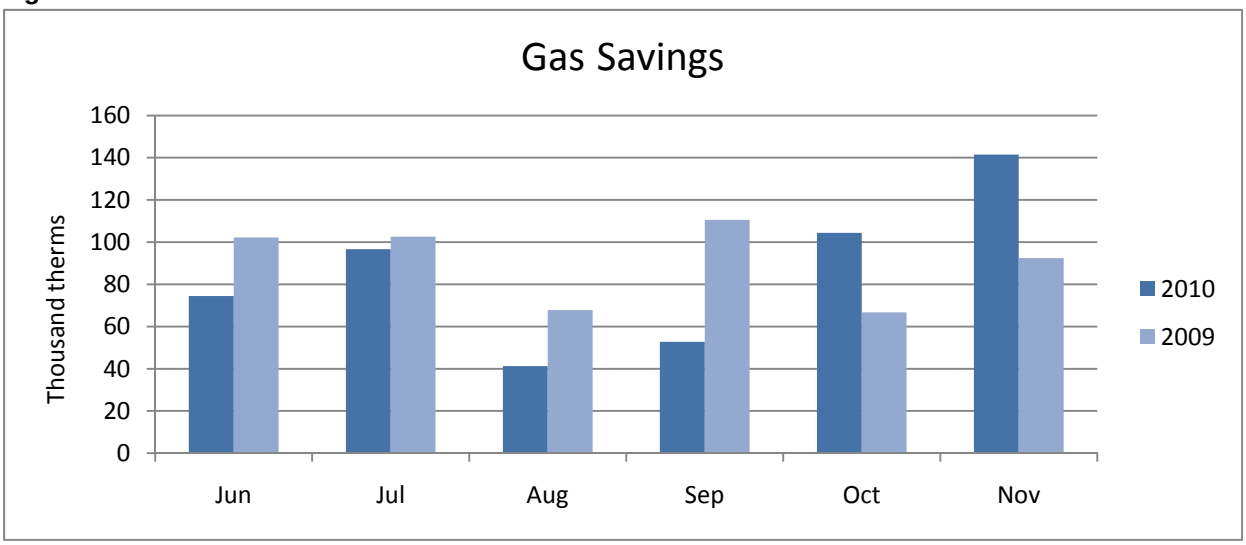


Figure 1.5



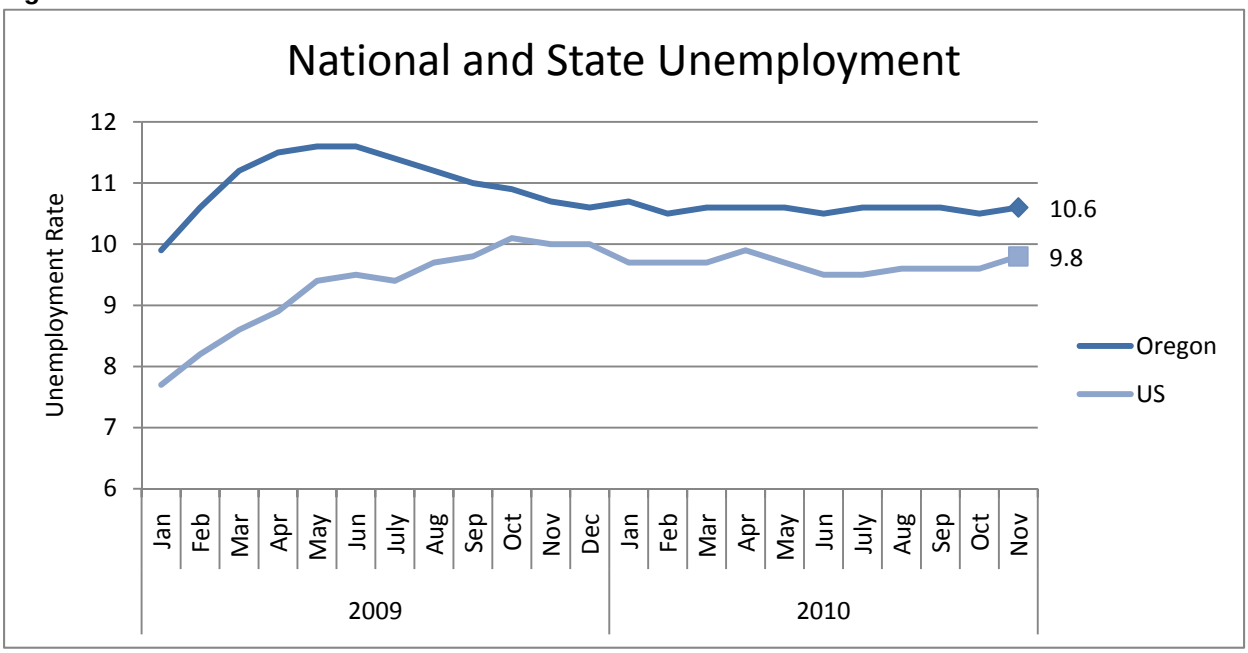
As shown in figures 1.4 and 1.5 above, both gas and electric savings in October and November beat last year's savings in the same months by huge margins, most notably so on the electric side. This was due primarily to over 39,000 Energy Saver Kits being recognized in October and November, which accounted for 68.7 percent of total kWh savings in those months. Still, savings excluding Energy Saver Kits was 89% greater in November this year than the same month in 2009. Another 14,700 Energy Saver Kits and 6,600 Living Wise Kits are expected to be recognized in December.

2.1 Macroeconomic Indicators

Unemployment-

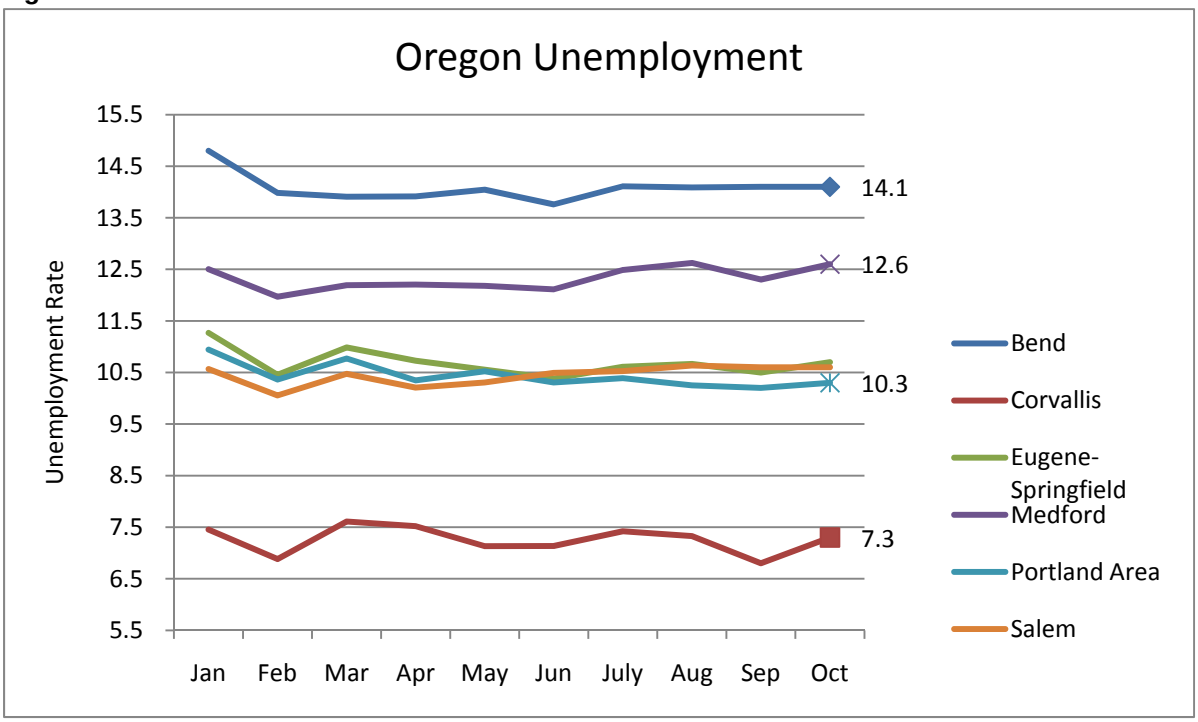
Although the number of unemployed persons decreased by over 550,000 nationally in December, the overall economy has gained back only 1 million of the nearly 8.5 million jobs lost since the beginning of the recession in 2008. Despite the gains made in recent months by some sectors of the labor force, the overall unemployment rate remains very high, hovering around 9.6 percent nationally, and near 10.6 within Oregon throughout most of 2010. Alarmingly, there continues to be a large number of job-seekers who have remained without employment for extended periods of time, causing great concern for many policy makers and prompting congress to grant a 13 month extension of unemployment benefits in November as the economy continues to heal. Long-term unemployment is especially worrisome because it tends to erode the skills of those affected, creating lasting effects on earnings prospects that are particularly hard to overcome, and additionally, compounds problems for individuals and families facing foreclosure difficulties.

Figure 2.1



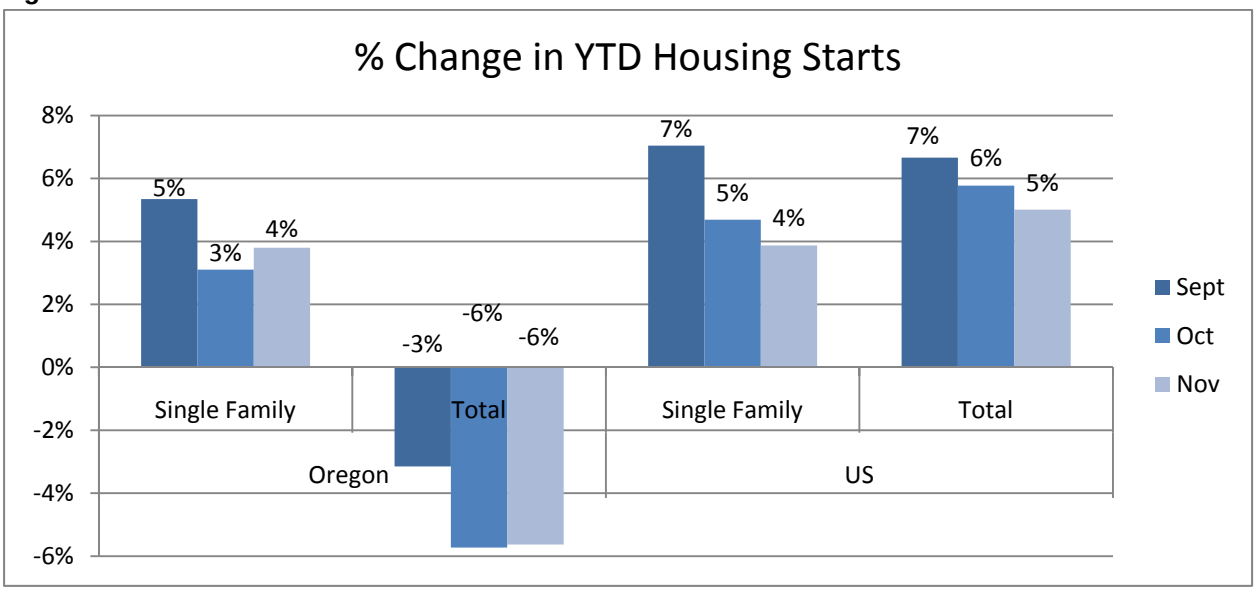
Within the state, the Bend-Central Oregon area that was hit hardest by the collapse of the real estate market continues to battle the highest unemployment rate (14.1 percent), followed by Medford, Eugene-Springfield, and the Portland area, all around ten and half percent unemployment. Corvallis, on the hand, has been successful in keeping the unemployment rate relatively low in their area throughout the last two years of recession, maintaining a rate consistently lower than the national average. On a positive note, the private sector has added jobs, on a seasonally-adjusted basis, in five of the past 6 months within Oregon as a whole.

Figure 2.2



New Homes Report-

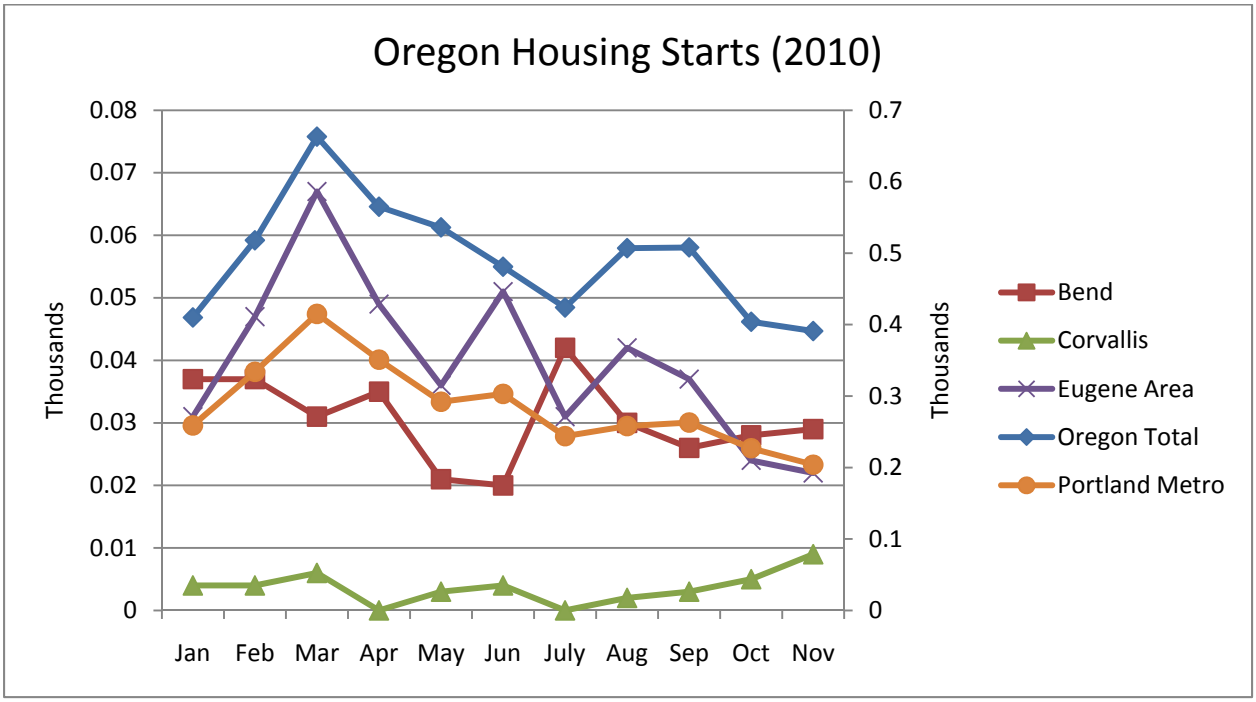
Figure 2.3



As can be seen in figure 2.3 above, both single family and total housing starts for the entire nation (as measured by building permit activity), have increased by 4 to 7 percent compared to the same months in 2009. However these improvements over 2009 for the fall months are not as great as the gains shown in the last Market Indicators Report for the summer months June,

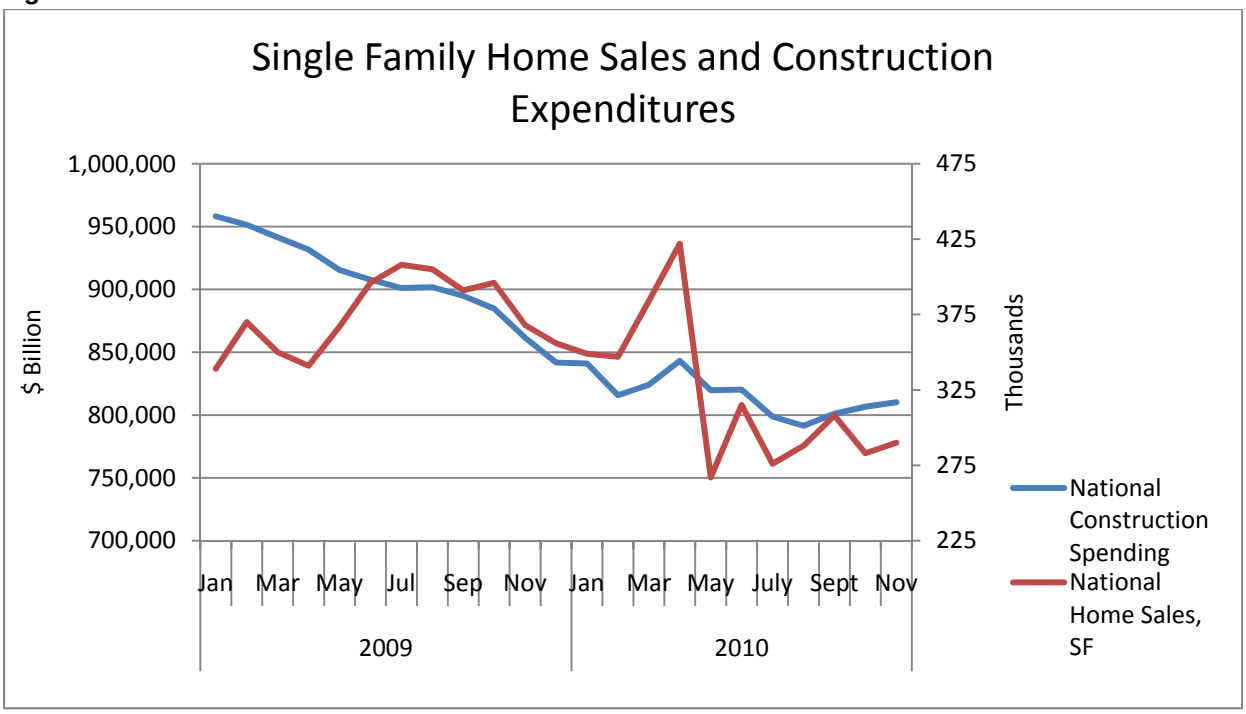
July, and August, where there was consistent double digit percentage increases in YTD housing starts. We can also see from the above figure that although single family housing starts have picked up somewhat in Oregon, total starts are still lower than the same months last year (this was also true for the summer months of 2010). Examination of figure 2.4 below shows that no specific region within Oregon has made solid gains in 2010 in terms of the number of housing starts, and in fact there is a slight downward trend throughout the year. These numbers illustrate the harsh reality that major obstacles and difficulties continue to hinder a robust recovery in housing markets, both nationally, more notably so within our own state. It is also important to note that because of a large overhang of vacant houses in the market, prices in both housing and construction industries remain depressed, which is not directly reflected in statistics showing the *number* of housing starts and home sales.

Figure 2.4



National Construction Expenditures-

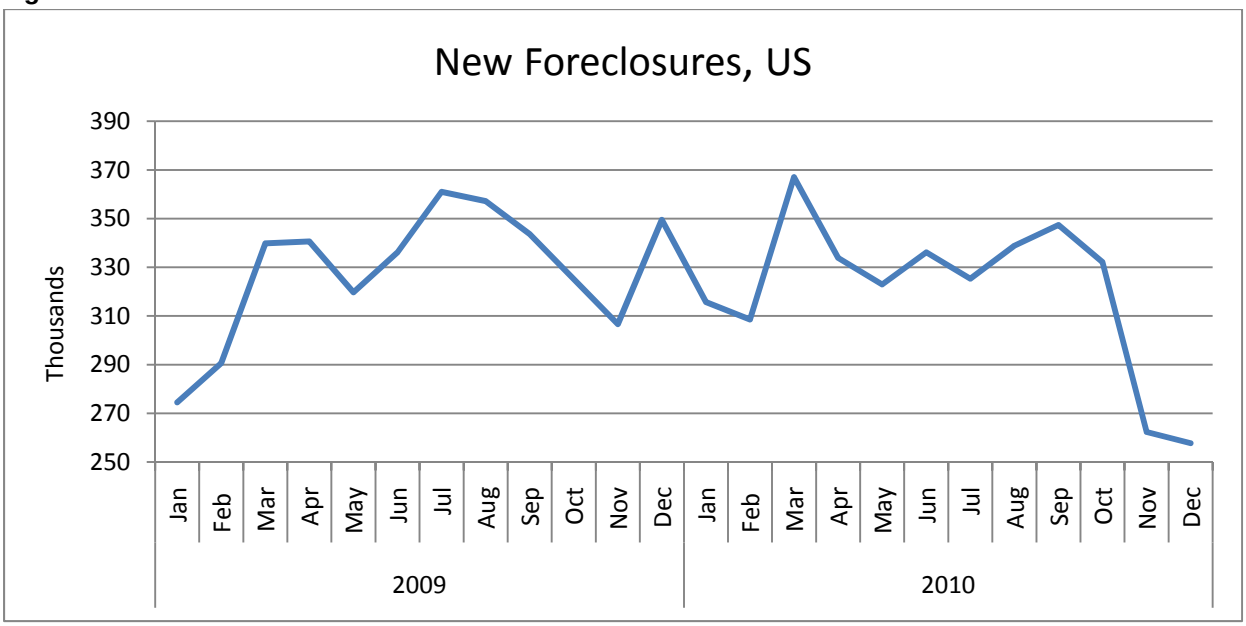
Figure 2.5



Unfortunately, residential housing markets are not alone in the continuing struggle to emerge from recessionary contractions in demand. National construction spending, a measure that includes both private and public spending for construction in all sectors (res and non-res), has dwindled over the course of 2010 although the decrease is not as drastic as in 2009. From figure 2.5, it is also evident that single family home sales on a national level have yet to recover, despite a temporary jump in sales seen during March and April that was a result of the New Home Buyer Tax Credit, which many prospective consumers took advantage of before its expiration.

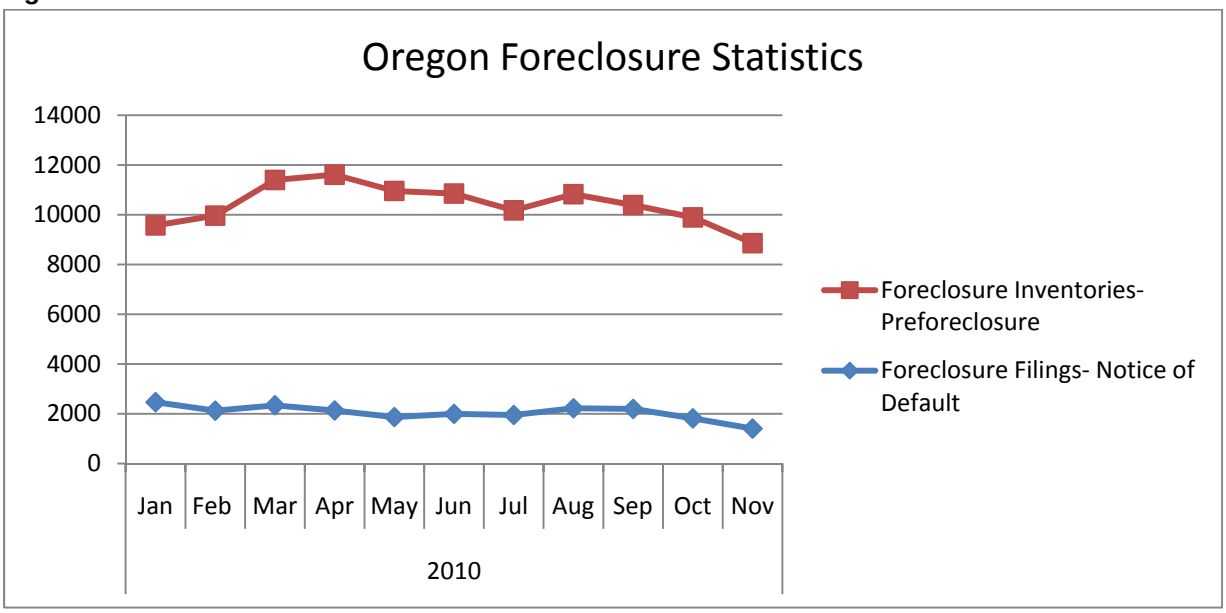
Foreclosures-

Figure 2.6



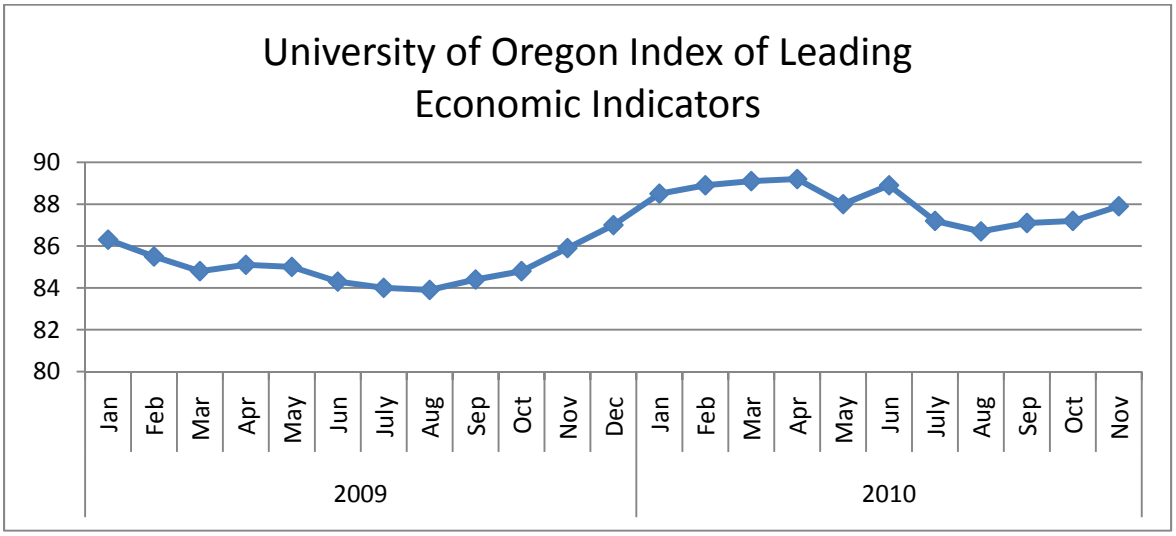
As seen in figure 2.6 above, the number of foreclosures nationwide has fallen in each of the last four months. While many people are hopeful that this is a sign of growing momentum in the housing market recovery, the possibility remains that this downtrend in foreclosures contains residual effects of the recent incidences of reported irregularities in foreclosure practices at a number of large financial institutions. The revelation of these irregularities resulted in the temporary suspension of foreclosure proceedings, and prompted in-depth reviews of practices at many of these major financial institutions.

Figure 2.7



University of Oregon Index of Leading Economic Indicators

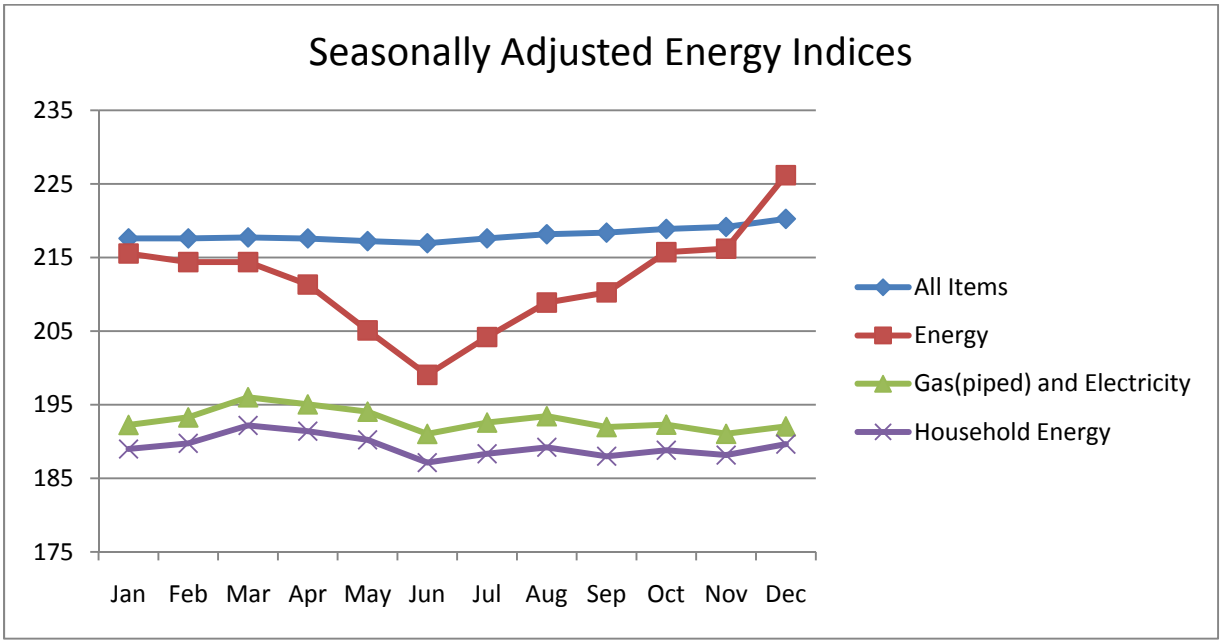
Figure 2.8



Over the past six months the UO Index has declined 2.6 percent, while disappointing in an overall sense, these most recent numbers also signal a relative improvement over the six month period reported in the last Market Indicators Report. Labor market indicators continue to improve modestly compared to the same periods last year, but it remains clear that we have yet to see the kind of economic recovery required to drive down initial unemployment claims to their pre-recession levels. The most recent UO Index release also posted gains for the Oregon Weight Distance Tax, a measure of trucking activity, indicating (anticipated) growth in consumer demand.

Price Indices-

Figure 2.9



After slight declines in November, the indices for Gas & Electricity, as well as for Household Energy gained back some of that lost ground in December. November marked the smallest increase in 5 months for the all Energy index signaling a temporary softening in demand for those goods, but that loss was more than offset by a 4.6 percent increase in December, the strongest gain for the Energy Index in all of 2010.

Figure 2.10

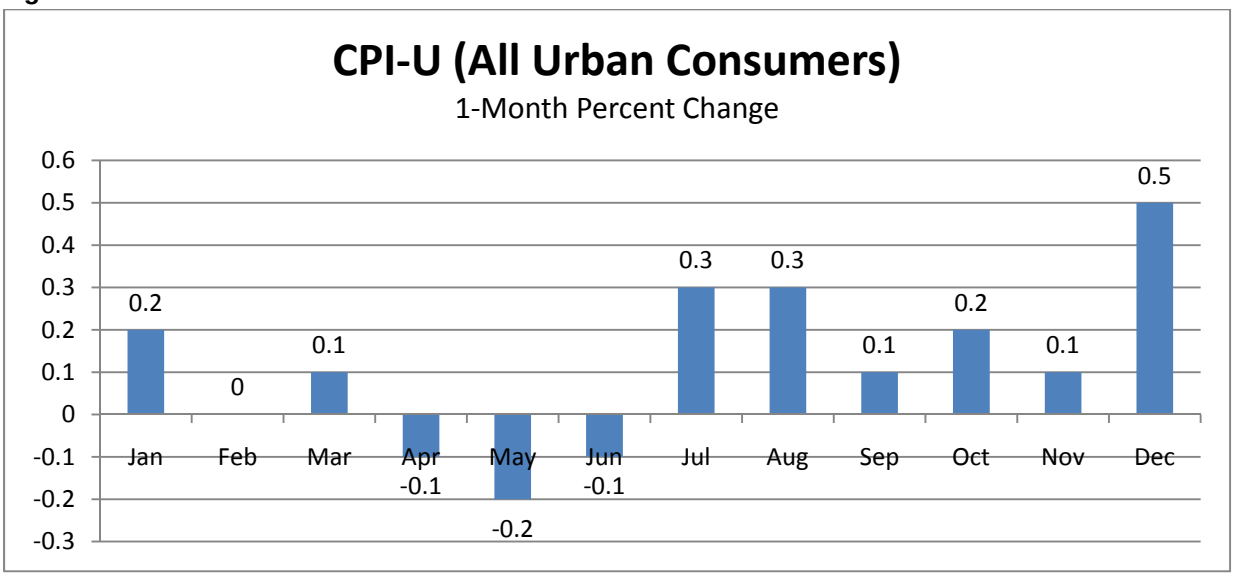
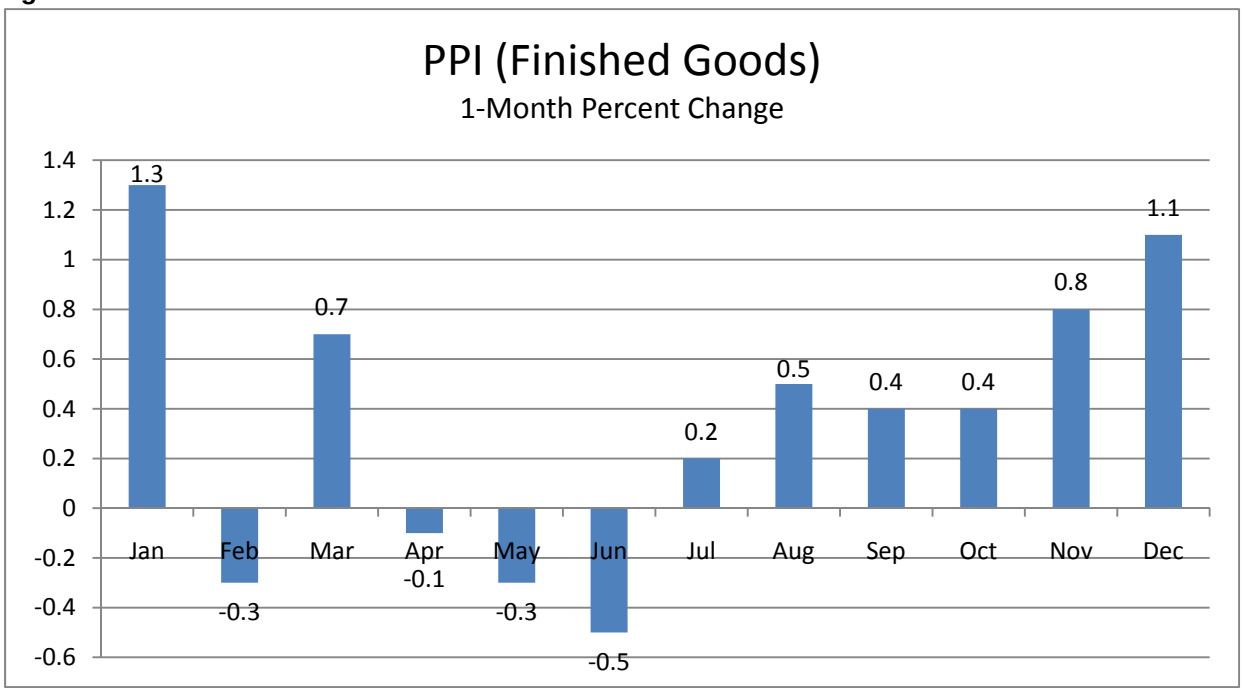


Figure 2.11



> "Recent data show consumer price inflation continuing to trend downward. For the 12 months ending in November, prices for personal consumption expenditures rose 1.0 percent, and inflation excluding the relatively volatile food and energy components--which tends to be a better gauge of underlying inflation trends--was only 0.8 percent, down from 1.7 percent a year earlier… The downward trend in inflation over the past few years is no surprise… as a result of the weak job market, wage growth has slowed along with inflation"
>
> *-From Federal Reserve Chairman Ben Bernanke's speech on The Economic Outlook and Monetary and Fiscal Policy, 01/07/11.*

Institute of Supply Management's *Report on Business-*

As of the December release of ISM's Report on Business, the manufacturing sector in the US expanded for the 17th consecutive month, and the overall economy grew for the 20th consecutive month. According to the report, "the recovery centered on strength in autos, metals, food, machinery, computers and electronics, while those industries tied primarily to housing continue to struggle". The PMI (purchasing managers index) was recorded at 57 percent in December, which was an increase of 0.4 percentage points from the previous month. A reading above 50 percent indicates that the economy is generally expanding; below 50 percent means the economy is generally contracting. This most recent ISM report also states that "the past relationship between the PMI and the overall economy indicates that the average PMI from

January to December (57.3 percent) corresponds to a 5.1 percent increase in real gross domestic product (GDP)".

Business Around the State-

- Fred's Southern Oregon Plywood Mill article

- The Confederated Tribes of Warm Springs are finalizing a deal with Bellevue, Wash., power developer Northwest Energy Systems Co. (NESCO) to build a 35-megawatt power plant on the reservation. The project would employ 75 to 100 people to gather woody debris and transport it to the power plant. *The Bulletin, 11/26/2010*

- Liberty Homes Inc. will close its Sheridan manufactured home plant in February, laying off 83 workers. *Portland Business Journal, 12/2/2010*

- bioMérieux Inc., a French biomedical firm, will close its Wilsonville plant by December 31, 2011. Approximately 100 employees will be laid off in phases beginning next July. *Portland Business Journal, 12/2/2010*

- Ground breaking is expected to take place in February on 192nd Avenue Station, a six-building, $50-million retail complex on the northeast corner of Southeast 192nd Avenue and 20th Street in east Vancouver. *The Columbian, 11/8/2010*

- Construction has begun on the Black Pearl on the Columbia River, a $5-million restaurant and bar in Washougal. It is expected to open in the spring and employ about 100 people. *The Columbian, 11/22/2010*

- Indow Windows opened a manufacturing facility in north Portland to build energy-efficient window inserts. It employs seven people and expects to increase to 30 as demand for the product ramps up. *Portland Business Journal, 11/18/2010*

- Element Power, a renewable energy company headquartered in Portland, received a permit to build an approximately 12 megawatt solar photovoltaic facility on leased lands in Christmas Valley. The solar energy project - the largest ever permitted in the state - will be capable of producing enough clean energy to power more than 6,000 homes. *The Oregonian, 10/22/2010*

- Vancouver-based Tidewater Barge Co. will lay off about 200 employees next month in response to a planned shutdown of three Columbia River locks. *The Columbian, 11/1/2010*

- Columbia Biogas LLC, a Portland startup, plans to build a $40-million biogas facility in northeast Portland that would produce enough electricity to power up to 5,000 homes. It will take in food waste from grocery stores, restaurants, and food processors and turn it into baseline power through the use of an oxygen-free process that produces a methane-rich biogas. It is expected to open in 2012 and employ 10 workers. *Portland Business Journal, 10/21/2010*

- A plywood mill owned by The Murphy Company of Eugene has reopened in Southern Oregon, putting 108 people back to work. *Associated Press, 12/20/2010*