Briefing Paper
Market Indicators Quarterly Report

October 22nd, 2009

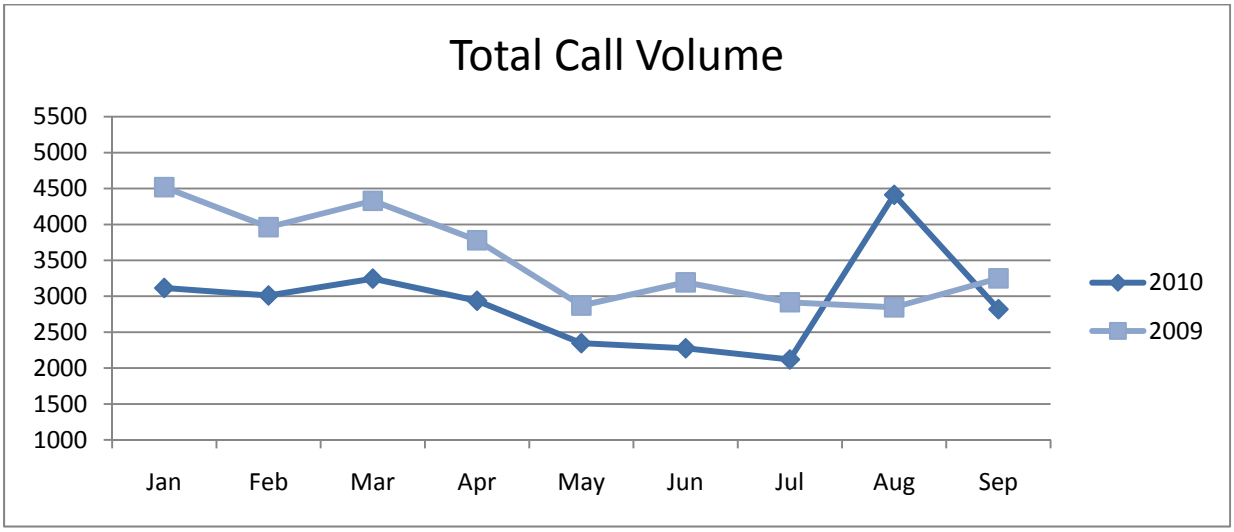
The purpose of this report is to track and assess changes in key economic indicators in an attempt to gain a better understanding of how demand for Energy Trust programs will respond to changing market dynamics. National and local economies continue to feel the effects of the 2008 economic recession, and 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. At the time this report was completed, recovery from the recession and growth in the economy has slowed as monetary action by the Federal Reserve Bank has not fully realized its intended purpose, and federal stimulus spending has remained insufficient to generate substantial positive movement in many sectors. Additionally, slow recovery in the labor market and persistent uncertainty about job prospects continue to hinder household confidence and spending. After two years of job losses, "private payrolls expanded at an average of about 100,000 per month during the first half of this year, an improvement but still a pace insufficient to reduce the unemployment rate materially", according to Federal Reserve economists. Estimates from prominent economic figures indicate that in all likelihood, significant time will be required to restore the nearly 8.5 million jobs that were lost over 2008 and 2009. This report focuses primarily on the period June 2010 to September 2010.

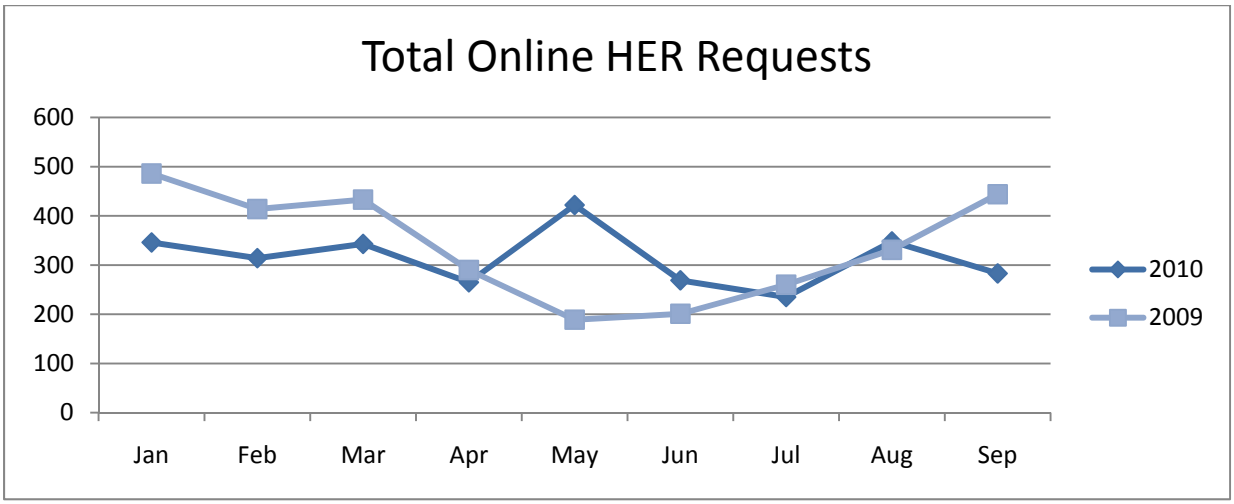
1.1 Energy Trust Programmatic Indicators

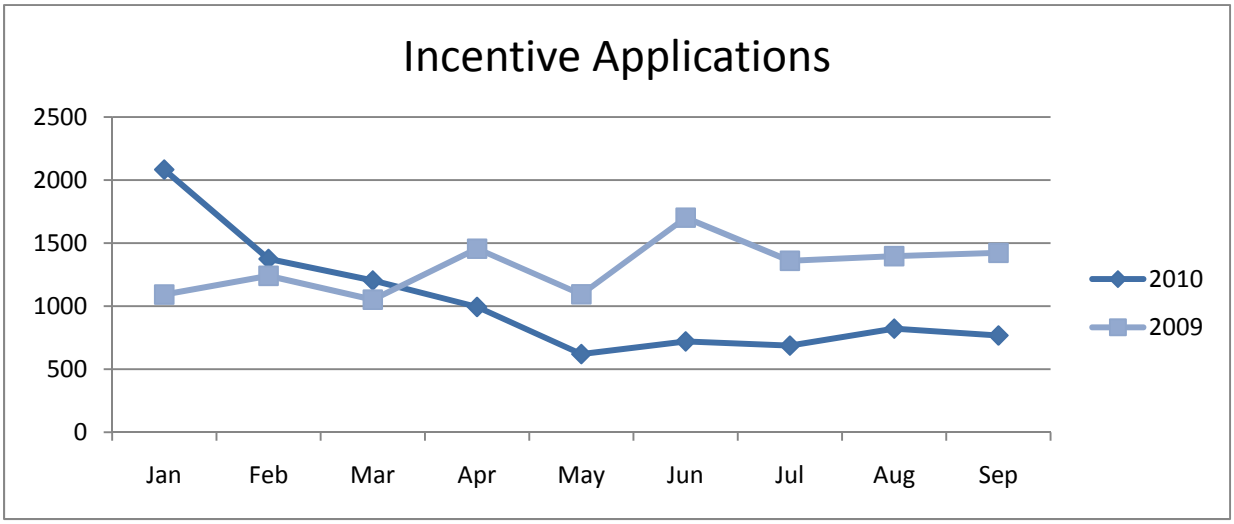
Existing Homes Report

Total calls to the ETO contact center increased dramatically in August, by 108 percent from the previous month, and 55 percent from August last year. The number of Online HER requests received also saw improvement in August from the previous months of decline as the fall months draw near and consumers begin to prepare for colder weather. Additionally, the impact of doubling the home comfort bonus from $150 to $300 seems to have had a positive effect on ETO customer demand, which is also visible from the increase in incentive applications received, up 19.6 percent from the previous month but still down 42 percent from August 2009. Incentive applications have also slowed in recent months as economic forecasts remain uncertain, and consumers continue to tighten their purse strings and retain a larger portion of income as savings.

Figures 1.1, 1.2, & 1.3







Gas and Electric Savings

Gas Savings and Electric savings followed the pattern of 2009 savings closely through the summer months, but fell behind 2009 savings in September (figures on next page). The large discrepancy in savings from September 2009 to 2010 is due to an absence of Living Wise kits processed in September 2010. When the savings from these kits were netted out of September 2009's savings total, the year-over-year change is essentially flat. Electric savings so far in 2110 have generally increased compared to the same months in 2009, most notably so in June when kWh savings were 74 percent higher than June 2009 due to the processing of over 12,000 Living Wise Kits. Home performance recorded exceptional gas and electric savings in both July and August which can be attributed to a high volume of CEWP projects during these months, according to the Q3 and September Monthly HES report. Also noteworthy is the 54 percent improvement for HER gas savings in July over the same month last year, thanks in large part to increased marketing efforts through the traditionally slow summer months.

Figure 1.4

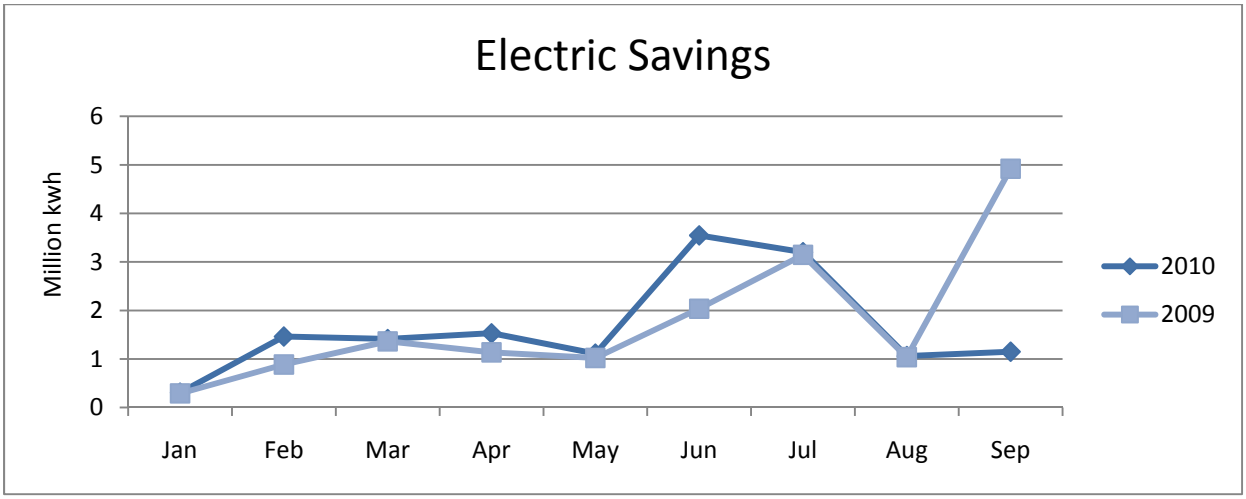
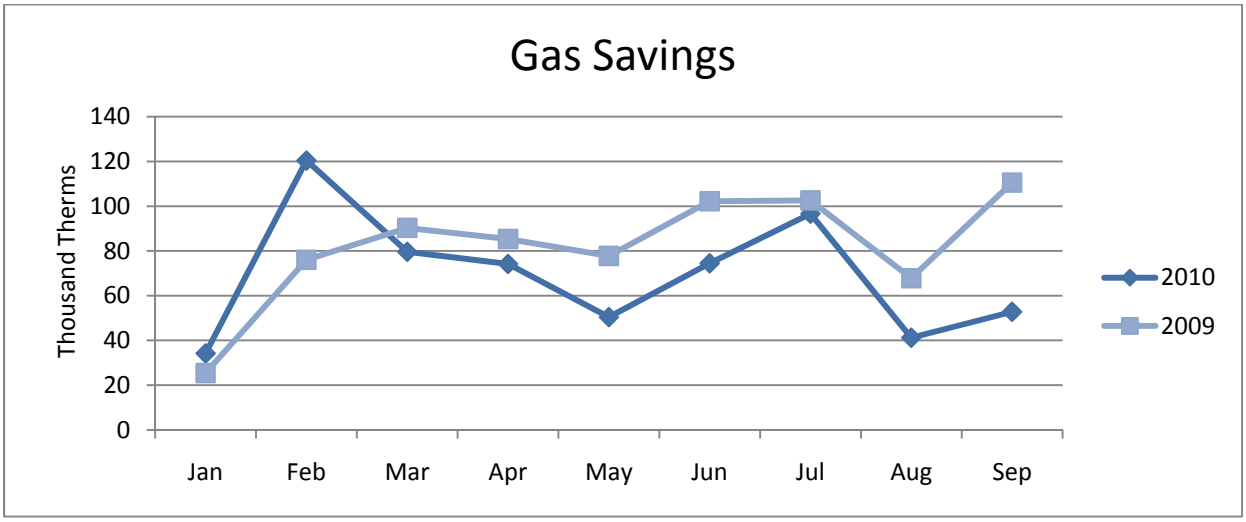


Figure 1.5

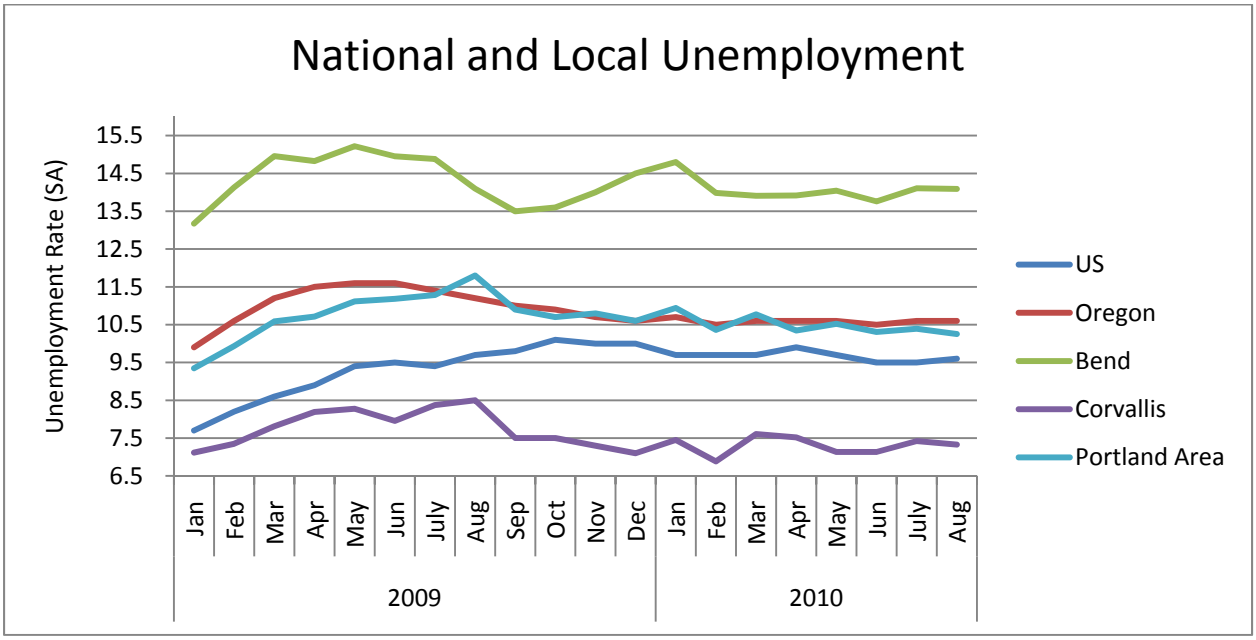


2.1 Macroeconomic Indicators

Unemployment

Oregon's seasonally adjusted unemployment rate was 10.6 percent in August, unchanged from 10.6 percent in July. The unemployment rate has remained between 10.5 and 10.7 percent for the most recent ten months, a full percentage point higher than the national rate, but still down from 11.2 percent in August 2009. The construction industry in Oregon added a disappointing 400 jobs in August, following several months of solid job gains. Employment in construction remains below its level during any month from 1996 to 2008. Professional/ Business services and Educational/ Health services both saw some employment gains in August while most other industries were forced to cut payrolls as weak consumer demand and persistently slow growth have continued to weigh heavily on Oregon business and households. For many people, including Tom Potiowsky: Oregon's State Government Chief Economist, the most recent employment news indicates that Oregon is still managing to avoid slipping into a dreaded "double-dip" recession, although the risk of such an event is still present and "recovery from the mass layoffs and collapse in housing prices of late 2008 and early 2009 remains elusive". Regionally, the Bend/ Central Oregon area continues to struggle with the highest unemployment rate in the state at 14.1 percent in August (SA), while Corvallis has consistently reported unemployment rates of less than 7.5 percent since September 2009. Nationally, the unemployment rate has remained near a seasonally adjusted rate of 9.6 percent through most of 2010.

Figure 2.1



New Homes Report

Nationally, non-residential construction expenditures have fallen slightly from 2009, while residential construction expenditures have stayed essentially flat. Housing activity, as measured by building permits, has grown compared to 2009 for single family dwellings throughout the summer, most notably in June when the percent change in year-to-date Single Family building permits in Oregon grew by 17 percent from the same month in the prior year. Unfortunately, total housing starts have slipped for Oregon, as a number of economic factors, including high unemployment and tight credit conditions, have hindered growth in residential construction projects on aggregate.

> "… notable restraints on the recovery persist. The housing market has remained weak, with the overhang of vacant or foreclosed houses weighing on home prices and new construction. Similarly, poor economic fundamentals and tight credit are holding back investment in nonresidential structures, such as office buildings, hotels, and shopping malls."
>
> *-From Federal Reserve Chairman Ben Bernanke's speech on upcoming challenges for the economy and State Government, 8/02/10.*

Figure 2.2

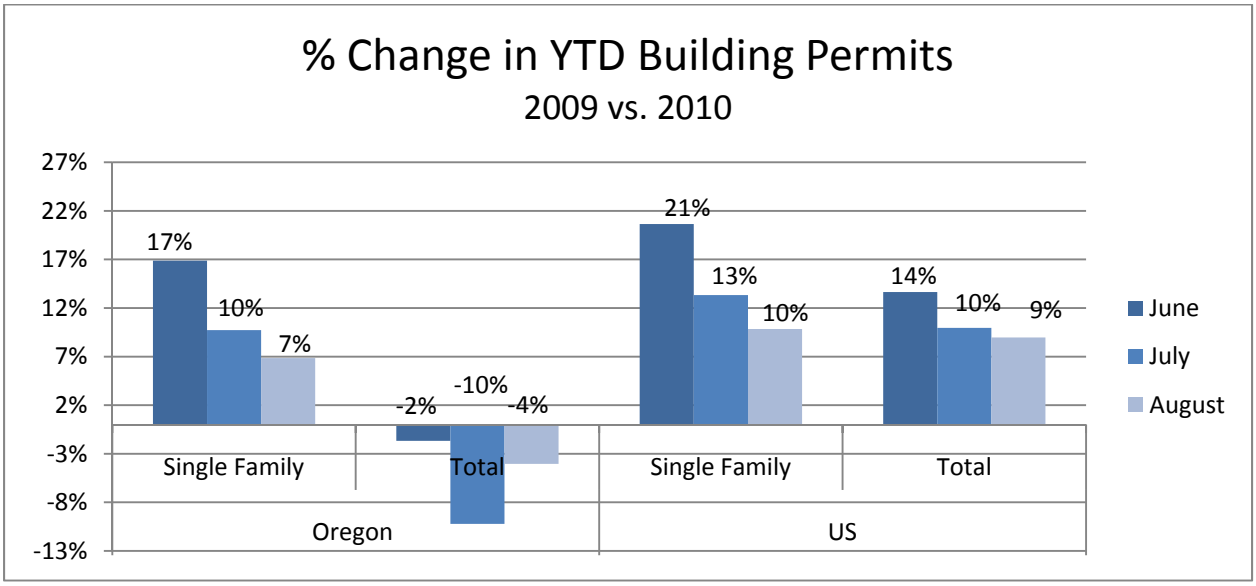
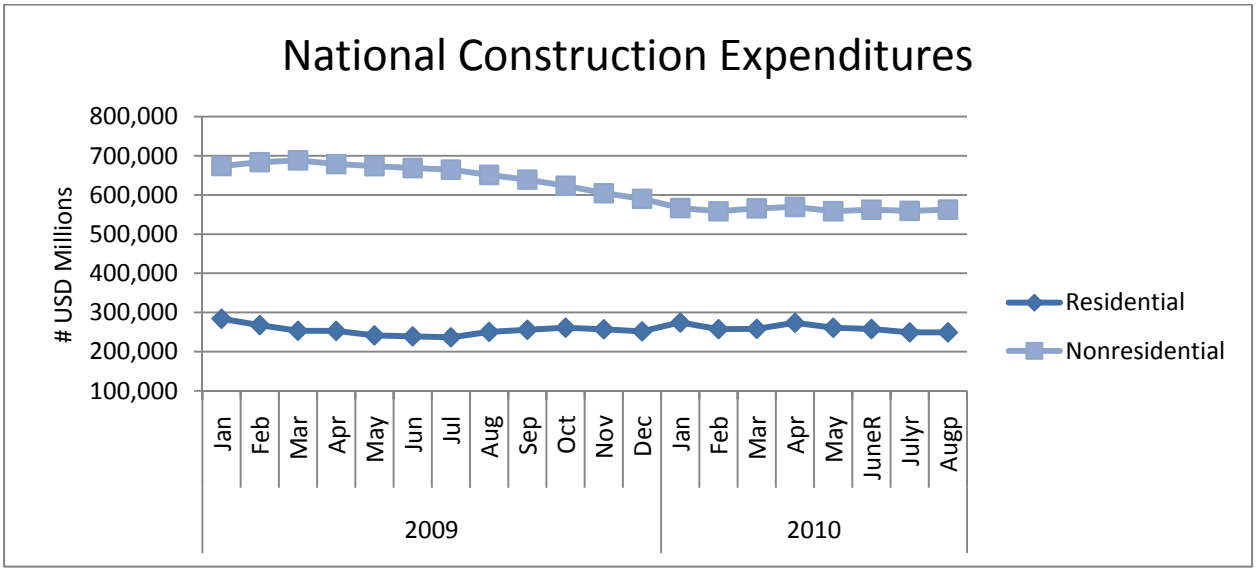


Figure 2.3



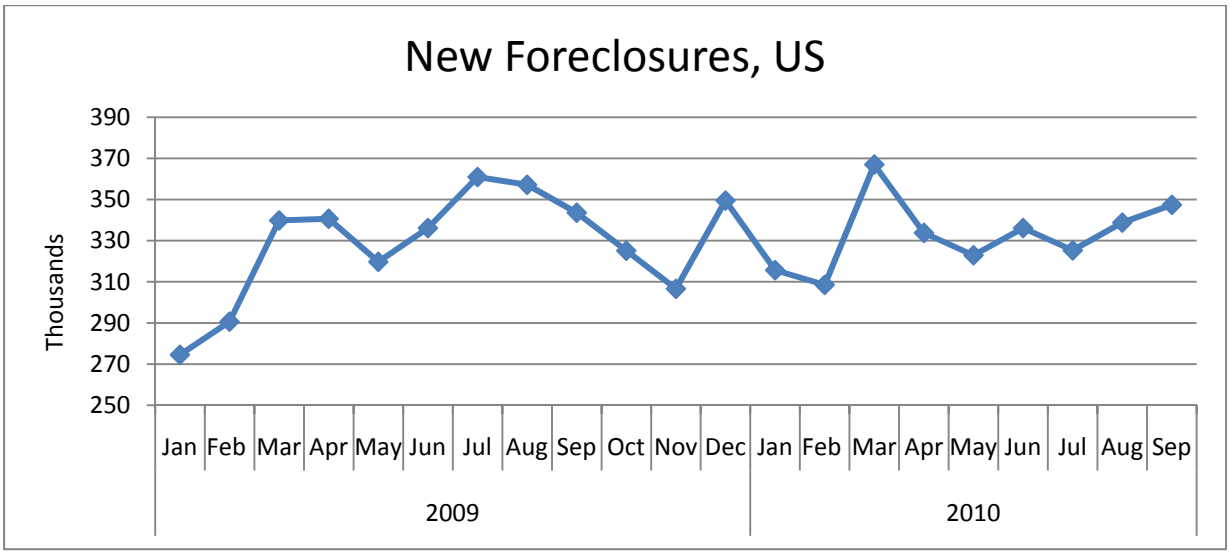
Foreclosures and Home Prices-

Despite the assistance provided by programs such as HAMP (Home Affordable Modification Program), the number of foreclosures reported each month has yet to ease, and most residential housing indicators suggest that home prices will not stage a substantial recovery in the near term. In recognition of the increasing number of foreclosed homes, the federal government has recently taken further steps to ease the burden faced by homeowners who can no longer afford to pay their mortgages.

> **"**The Obama administration released $600 million Wednesday to help unemployed homeowners in Oregon and four other states avoid foreclosure. Oregon, where one in every 76 homes is facing foreclosure, qualifies for $88 million. The money will be used to help distressed homeowners… and support local initiatives to assist struggling homeowners"
>
> *-From the Oregonian, 8/04/10.*

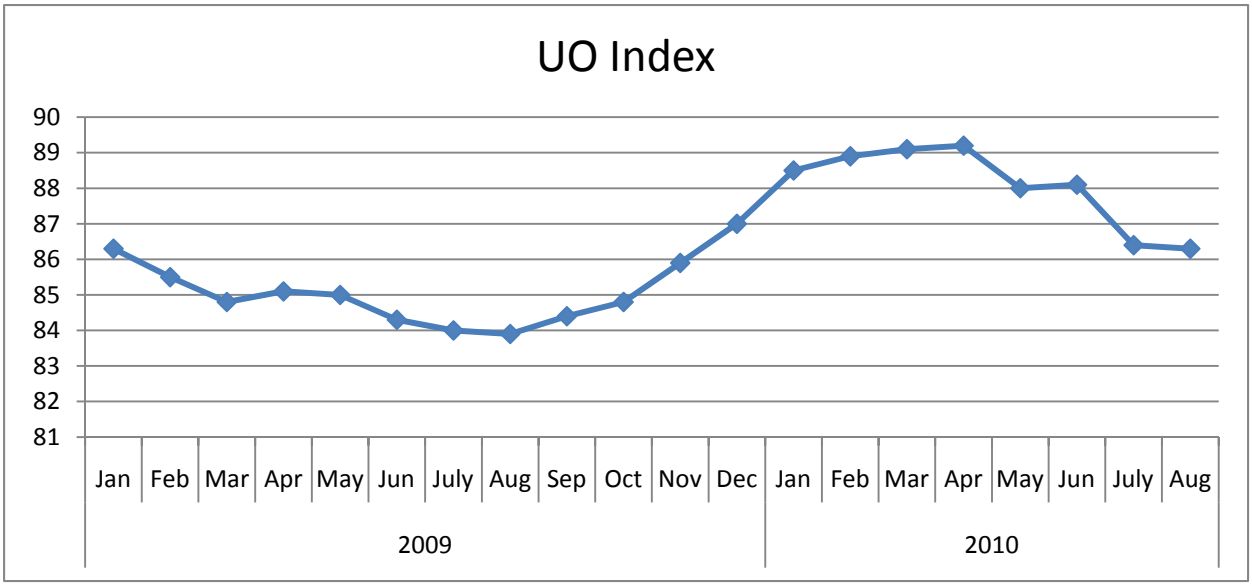
Recent developments though, will likely make the effect of such newly launched 'safety-net' programs unclear. In early October, Bank of America halted foreclosure proceedings in all 50 US states due to concerns of improper documentation and flawed paperwork in states that require judicial reviews of foreclosures. Subsequently, a joint investigation was launched by Attorney Generals in all 50 states to determine whether banks and loan servicers used false documents and signatures to justify hundreds of thousands of foreclosures. The likely effect of this seemingly widespread foreclosure moratorium is at minimum, a noticeable slowdown in the number of foreclosed properties in the near term, and at most, a complete halt of foreclosures into 2011. It is expected that a remedy to this problem will take several months for some lenders. The number of foreclosed properties nationwide, by month, is shown in the graph below (Figure 2.4).

Figure 2.4



University of Oregon Index of Leading Economic Indicators

Figure 2.5



In the last six months, the University of Oregon Index Of Leading Economic Indicators has declined 5.9 percent, signaling impending weakness in Oregon's economy, more specifically in nonfarm payrolls, according to the latest UO Index release. Although declines in the index were experienced throughout the summer, the most recent release of the U of O index showed a slowing in the downward trend, posting a decline of only 0.2 percent in August. Initial unemployment claims rose in August, further exacerbating weak demand in labor markets. These trends are not welcome news for Oregon's economy, where despite being in a recovery phase, economic activity has failed to grow at a pace sufficient to generate solid job growth.

Price Indices

Over the last 12 months, the Consumer Price Index for all items has increased only 1.1 percent before seasonal adjustment. Over the months April-June, the index showed a downward trend that seemed to have reversed in July, and is now seeing some positive movement. The three straight months of falling consumer prices caused widespread concern over the potential for deflation, and a corresponding drop in wages and the value of homes and investments. Much of this fear has since subsided, and the Federal Reserve Board now expresses the opinion that the nation's economy faces "only small odds of deflation".

Figures 2.6

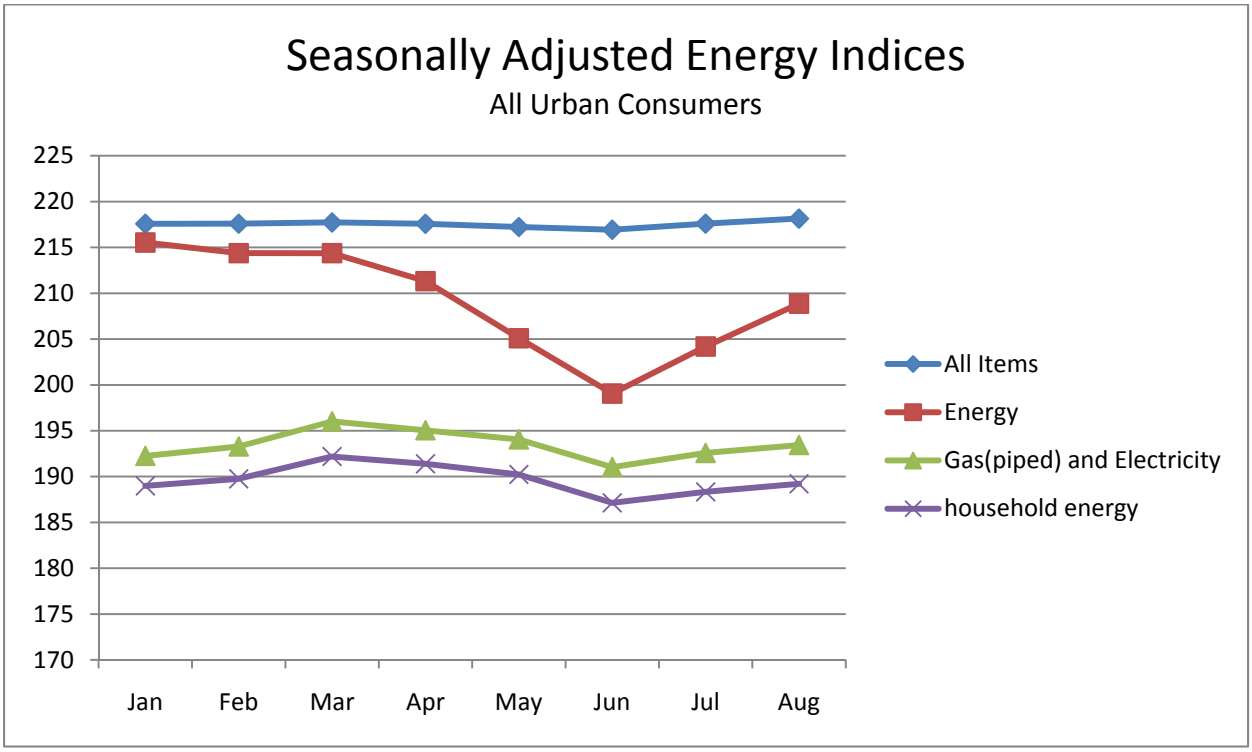
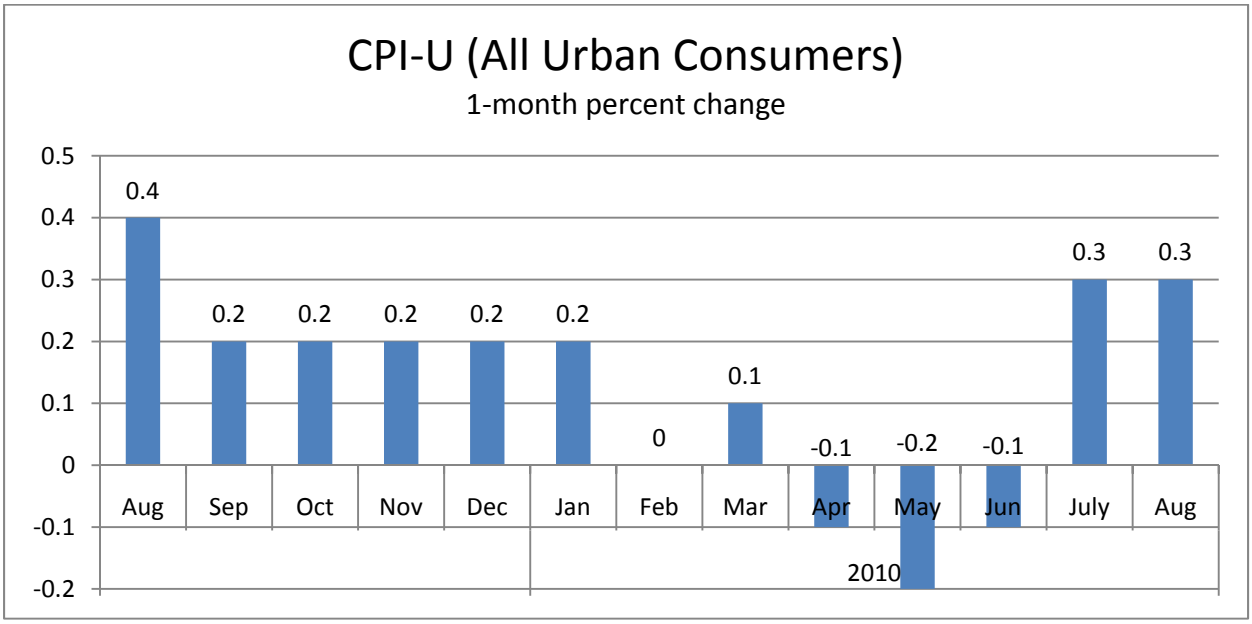


Figure 2.7



Supply Management Manufacturing Index

In early August, many economists expressed confidence in the possibility of a strong recovery from the recession. Ben Bernanke, chairman of the Federal Reserve Board, offered this insight regarding the state of the Manufacturing sector in the US;

> ""In the business sector, investment in equipment and software has been increasing rapidly, in part as a result of the deferral of capital outlays during the downturn and the need of many businesses to replace aging equipment. At the same time, rising U.S. exports, reflecting the expansion of the global economy and the recovery of world trade, have helped foster growth in the U.S. manufacturing sector."
>
> *-From Federal Reserve Chairman Ben Bernanke's speech on upcoming challenges for the economy and State Government, 8/02/10.*

Since then we have seen the pace of the recovery slow, and recently many analysts have traded their optimistic predictions of growth for slightly more conservative forecasts. Nevertheless, economic activity in the manufacturing sector expanded in September for the 14th consecutive month, and the overall economy grew for the 17th consecutive month, say the nation's supply executives in the latest Manufacturing ISM *Report On Business*. Following recent trends in other sectors of the economy, the growth of new orders continued to slow, as the manufacturing index is down significantly from its cyclical high of 65.9 percent (January 2010). According to the *Report on Business, "*production is currently growing at a faster rate than new orders, but it typically lags and would be expected to weaken further in the fourth quarter". Manufacturing has enjoyed a stronger recovery than other sectors of the economy, but it appears that weaker growth is the expectation for the fourth quarter. Both the Inventories and Backlog of Orders Indexes are sending negative signals of weakening performance in the sector.

Figure 2.8- Components of the Supply Manufacturing Index

Manufacturing at a Glance						
Index	Series Index September	Series Index August	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI	54.4	56.3	-1.9	Growing	Slower	14
New Orders	51.1	53.1	-2	Growing	Slower	15
Production	56.5	59.9	-3.4	Growing	Slower	16
Employment	56.5	60.4	-3.9	Growing	Slower	10
Supplier Deliveries	52.3	56.6	-4.3	Slowing	Slower	16
Inventories	55.6	51.4	4.2	Growing	Faster	3
Customers' Inventories	42.5	43.5	-1	Too Low	Slower	18
Prices	70.5	61.5	9	Increasing	Faster	15
Backlog of Orders	46.5	51.5	-5	Contracting	From Growing	1
Exports	54.5	55.5	-1	Growing	Slower	15
Imports	56.5	56.5	0	Growing	Same	13
Overall Economy				Growing	Slower	17
Manufacturing Sector				Growing	Slower	14

Business Around the State- Synopsis of Recent Market Activity

- Facebook will add 160,000 square feet to the size of its data center that is under construction in Prineville. The first phase should be finished early next year, and the second phase will be completed in 2012. *The Oregonian, 8-3-10*

Facebook still responds to criticism from Greenpeace of its location in Pacificorp's service territory because a high percentage of the IOU's generation comes from coal. Facebook will work with Pacific to encourage more green power from wind and will strive to be national leader in efficiency rating for the data center. *The Oregonian 10-15-10*

- G5 Search Marketing, a Bend company specializing in localized marketing campaigns, landed $15 million in venture capital. It employs 80 people and expects to double its workforce by the end of 2011. *The Oregonian, 8-10-10*

- Construction will begin in January on the Sherwood Cannery Square in Sherwood. The public/private mixed-use project will consist of 101 apartments and about 35,000 square feet of commercial and community space. *Daily Journal of Commerce, 8-4-10*

- Kettle Foods Inc. is planning an $8.4 million expansion at its Salem snack foods plant that will add 15 jobs. *Statesman Journal, 8-9-10*

- A 24-screen Cinetopia will open at the Westfield Vancouver mall in November 2011. It will employ about 150 people and feature nine living room theaters and several auditoriums with 65-foot and 80-foot screens. *The Columbian, 8-24-10*

- Oregon Health & Science University will build a $160-million, 263,000-square-foot "life sciences collaborative complex" in Portland's South Waterfront neighborhood. The complex will allow OHSU to expand its medical, dentistry, nursing, and physician assistant schools. It will also have room for the OSU pharmacy, UO psychology, and PSU biology, and chemistry programs. Construction is slated to begin in December 2011, with proposed completion in summer 2014. *The Oregonian, 9-9-10*

-Intel has announced plans for a large expansion to their Hillsboro research facilities set to cost between $6 billion and $8 billion. The construction phase will support and estimated 6,000 temporary construction jobs, and at least 800 new, long-term production jobs after the project is complete. *The Oregonian 10-19-10*

Compiled by
Adam F. Shick
Planning and Evaluation Intern