Briefing Paper
Market Indicators Quarterly Report

March 9th, 2012

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 improvement or further worsening of economic conditions, thereby providing Energy Trust program managers with the ability to respond to changes accordingly.

Economic recovery has been painfully slow over the last 2.5 years, which has unfortunately left the US economy more vulnerable to shocks than it would have been under a more robust recovery. In recent months, however, "indicators of spending, production, and job market activity have shown some signs of improvement; and, in economic projections just released, Federal Open Market Committee (FOMC) participants indicated that they expect somewhat stronger growth this year than in 2011.[1]"

The number of vacant homes is about 40% higher than normal (1.75 million compared to only 1.25 million during most of the 2000's). Additionally, the high number of foreclosed homes on the housing market essentially 'crowds out' the need for new homes in the market. Due to tight credit conditions, job market uncertainty, and high unemployment, the ability and desire for consumers to commit to homeownership is much weaker than it has been in the past. Rental vacancies however have declined and construction of apartment buildings has picked up. Globally, economic activity appears to be stagnating, restrained in part by spillover effects from financial developments in Europe[2].

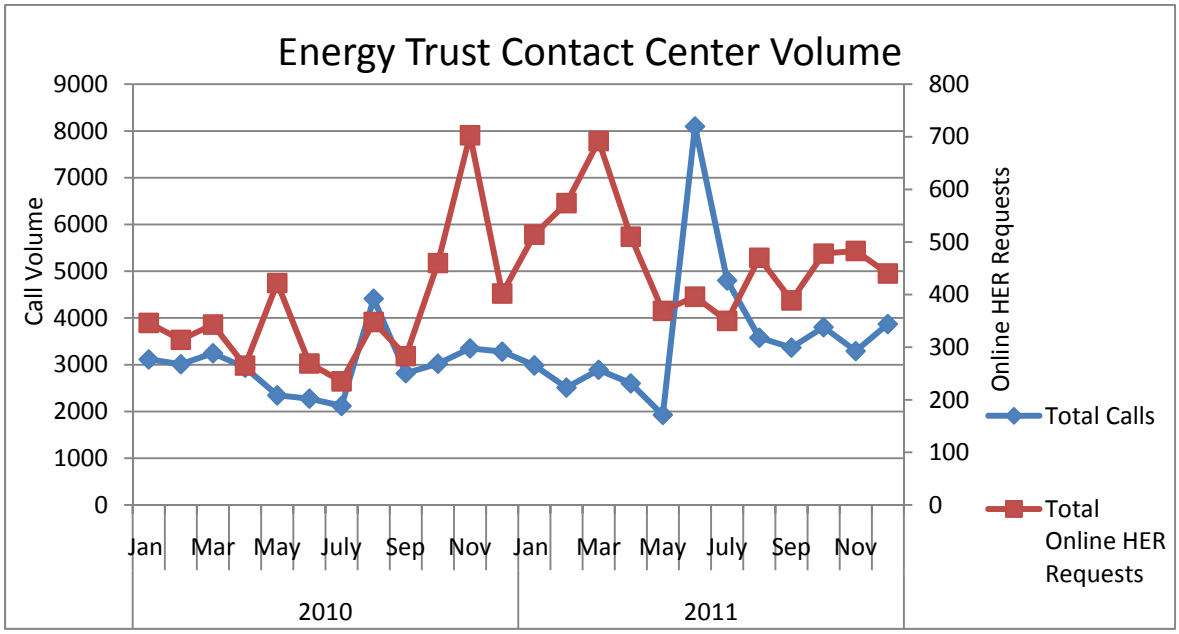
The health of the job market also remains as an issue, as noted recently by Ben Bernanke in his recent address to the U.S. House of Representatives titled *The Economic Outlook and The Federal Budget Situation*;

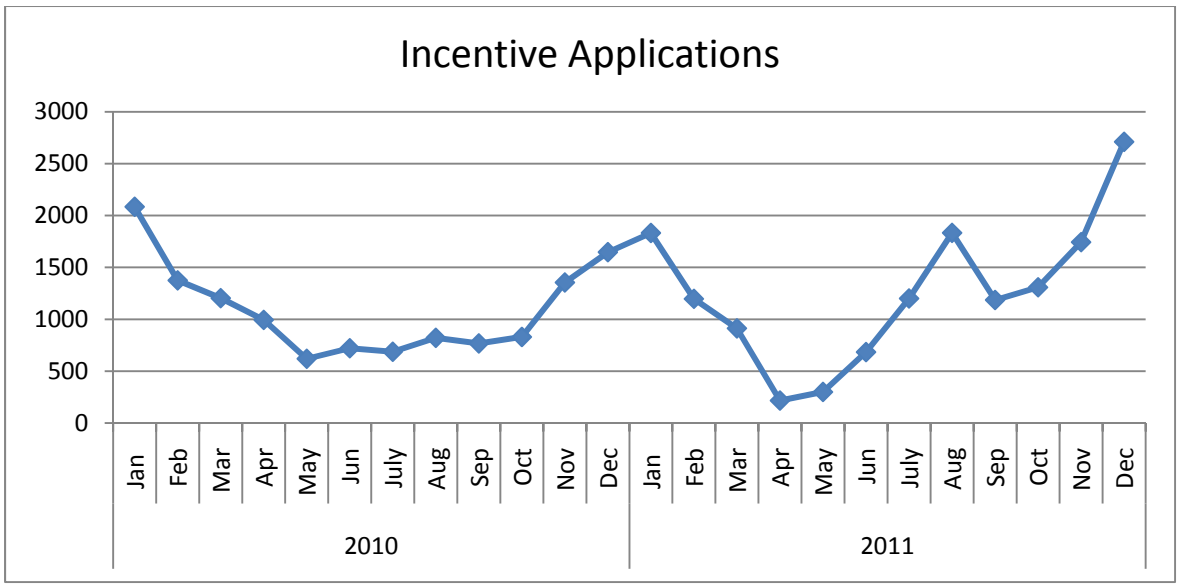
> "Though some progress has been made in reversing the losses in jobs and income sustained during the recession, the pace of expansion has been frustratingly slow and the unemployment rate remains very high by historical standards….more than 40 percent of the unemployed have been jobless for more than six months, roughly double the fraction during the economic expansion of the previous decade."
>
> Federal Reserve Chairman Ben Bernanke, *The Economic Outlook and the Federal Budget Situation*, before the U.S. House of Representatives, Washington D.C. 2/2/2012

[1] Federal Reserve Chairman, Ben Bernanke, *The Economic Outlook and the Federal Budget Situation,* 2/10/2012

[2] http://www.federalreserve.gov/newsevents/testimony/bernanke20120202a.htm

1.1 Energy Trust Programmatic Indicators

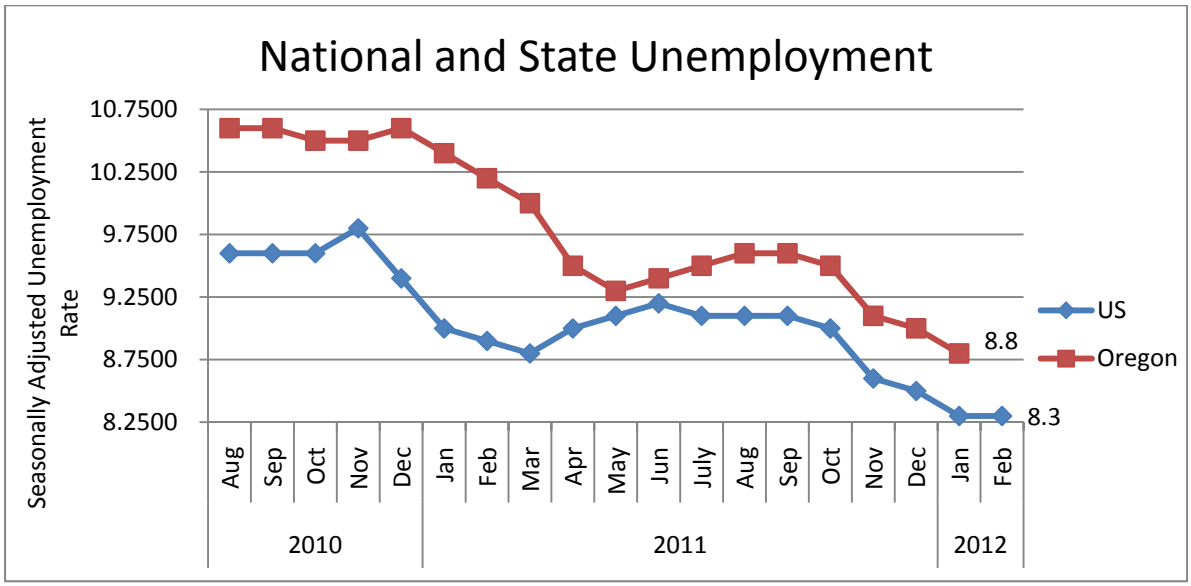




Seasonal interest in Energy Trust programs partially explains the observed increase in incentive application volume during the 4th quarter of 2011, while the processing of 600 Clean Energy Works Oregon incentive applications explains the remainder. The anomalous data spike in August for incentive applications is a feature of PGE's summer marketing blitz, and a corresponding rise in call volume during June is also observed in connection with that PGE marketing effort.

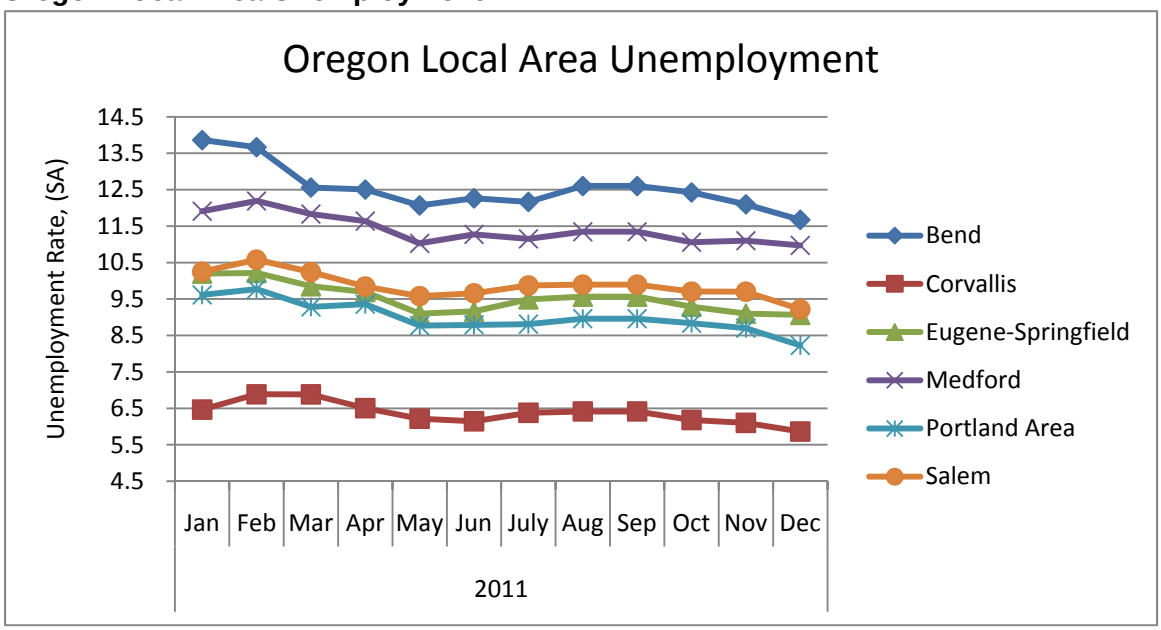
2.1 Macroeconomic Indicators

Unemployment-



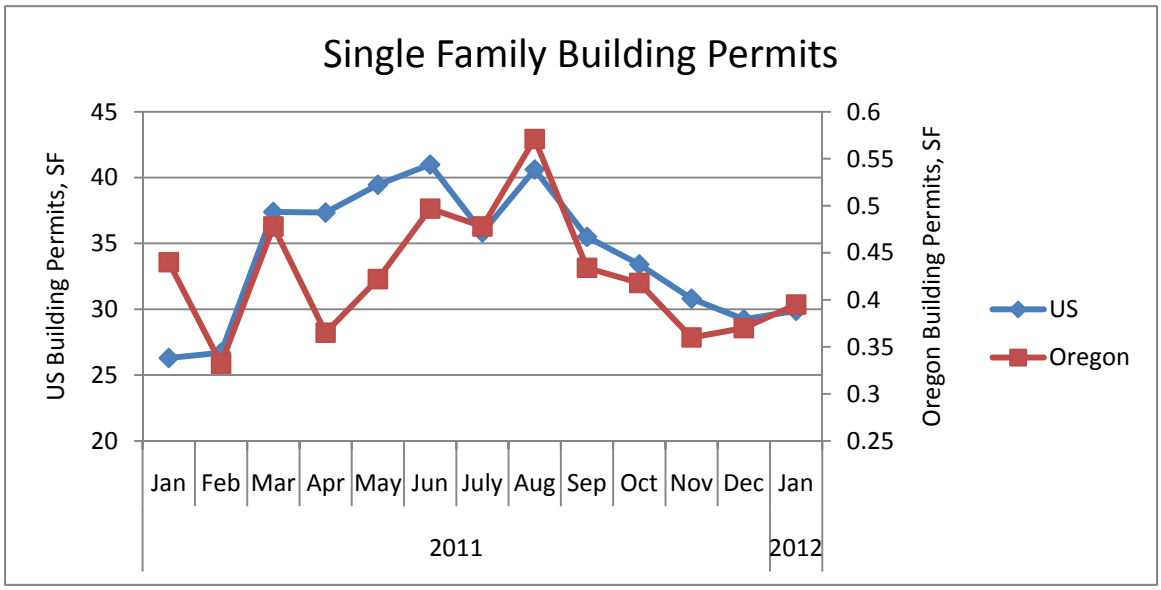
The employment situation has generally improved for both Oregon and the nation as a whole since the last Market Indicators Report was released in November 2011. The unemployment rate in Oregon decreased from 9 percent to 8.8 percent in January; its lowest level since late 2008 but still higher than the national rate. Average annual unemployment rates fell for 48 states during 2011, including Oregon, which posted a 1.2% average annual decrease.

Oregon Local Area Unemployment-



Within the state, unemployment rates remain relatively high in the usual problem areas, including the Bend-Central Oregon region, where the recessionary housing market and price contraction of 2008-2009 was felt most strongly by local economies.

New Homes Report-

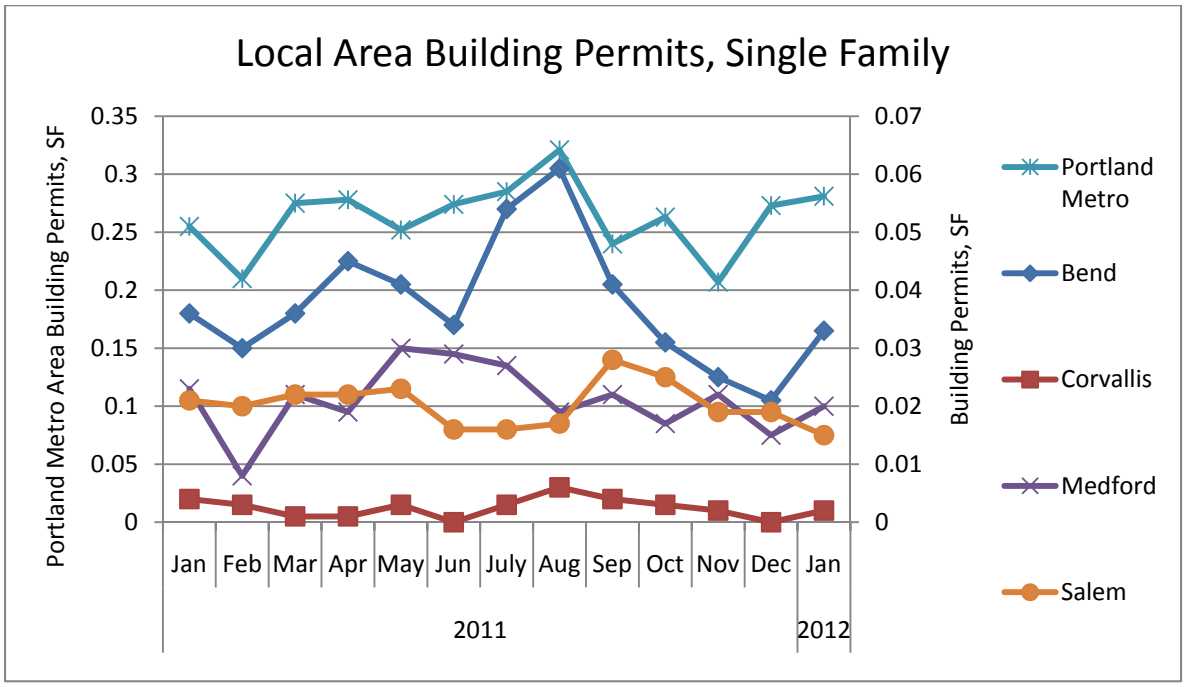


The number of building permits issued in a given period is commonly used as a proxy for housing starts, with the understanding that housing starts are a strict subset of total building permits issued. During 2011, the number of multifamily building permits issued nationwide grew by 30 percent compared to 2010, while single family permits slumped, falling 7 percent year-over-year. This national trend of strengthening rental markets and faltering single-family home sales was even stronger in the State of Oregon last year, where a 77 percent increase in multifamily building starts, and a 10 percent decline in single-family housing starts was recorded.

The number of Single Family building permits issued throughout the country in January of 2012 was 14 percent higher than a year earlier, and the total number of multifamily building permits was 69 percent higher for the nation, year-over-year.

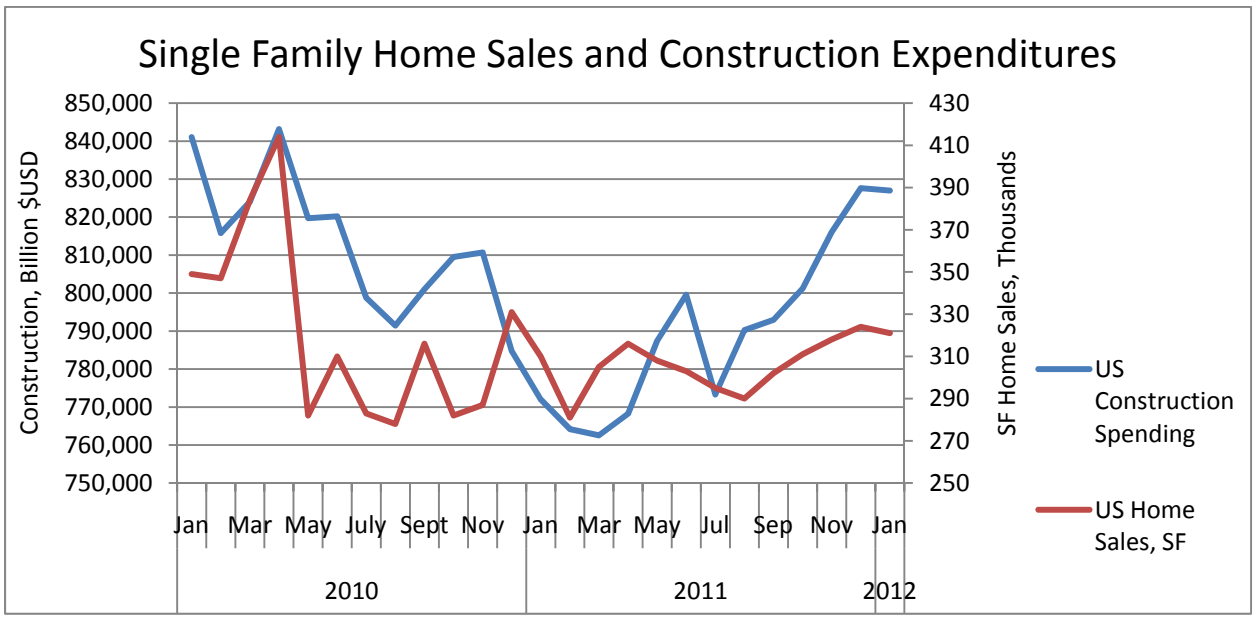
> "Nationally, house prices have plunged about 30 percent in nominal terms from their peak and nearly 40 percent in real, or inflation-adjusted, terms. The imbalance of supply and demand has also been reflected in the decline in home construction… Since 2009, the pace of single-family housing starts has averaged less than 500,000 units per year. During the 15 years before the financial crisis, the pace of single-family starts had never fallen below 1 million units per year."
>
> Ben Bernanke, at the 2012 National Association of Homebuilders International Builders' Show, Orlando, Florida

Local Area Housing Starts-



Construction activity has rebounded slightly in some regions within the state, but overall activity is generally not expected to recover to pre-recession levels in the near term due to persistently volatile movement in construction market indicators.

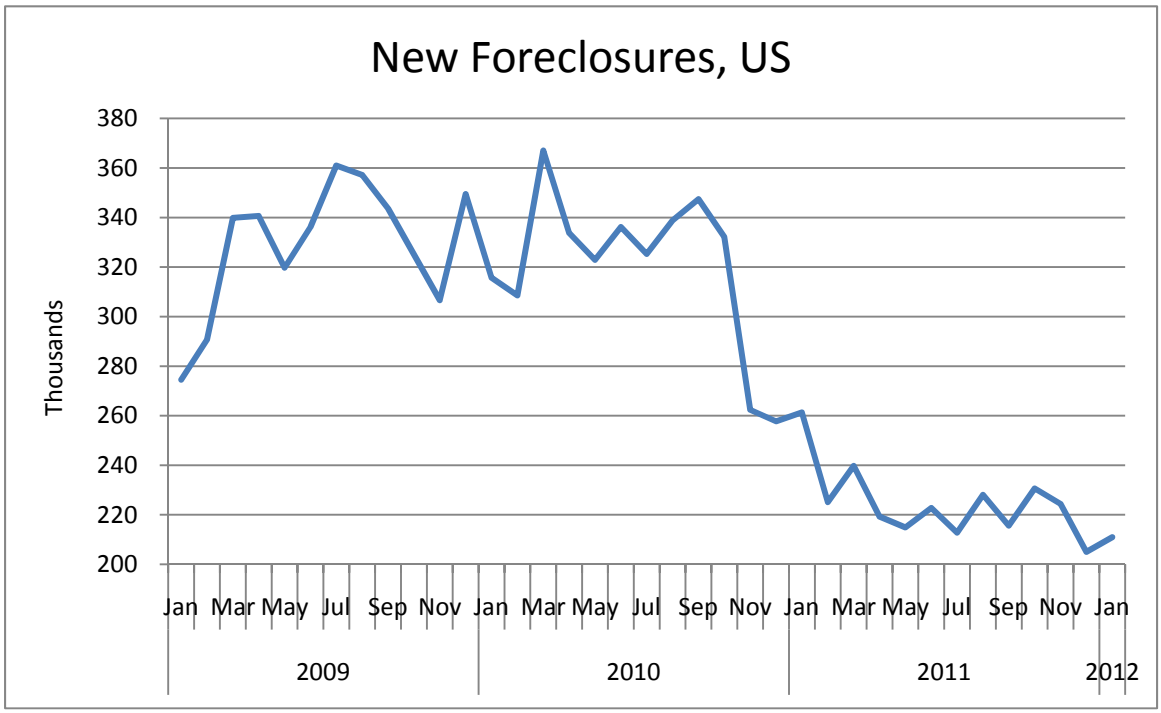
National Construction Expenditures-

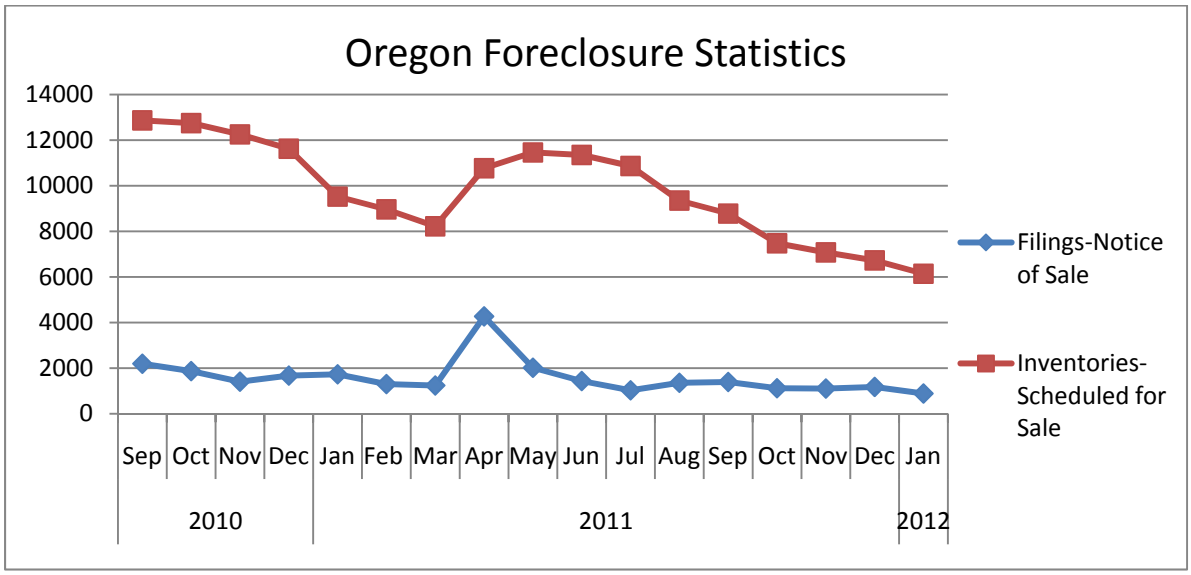


The rate of construction spending increased in January 2012 by 0.1 percent compared to the previous month, and by 7.1 percent compared to January 2011. This year-over-year increase in total construction spending was largely buoyed by private construction,

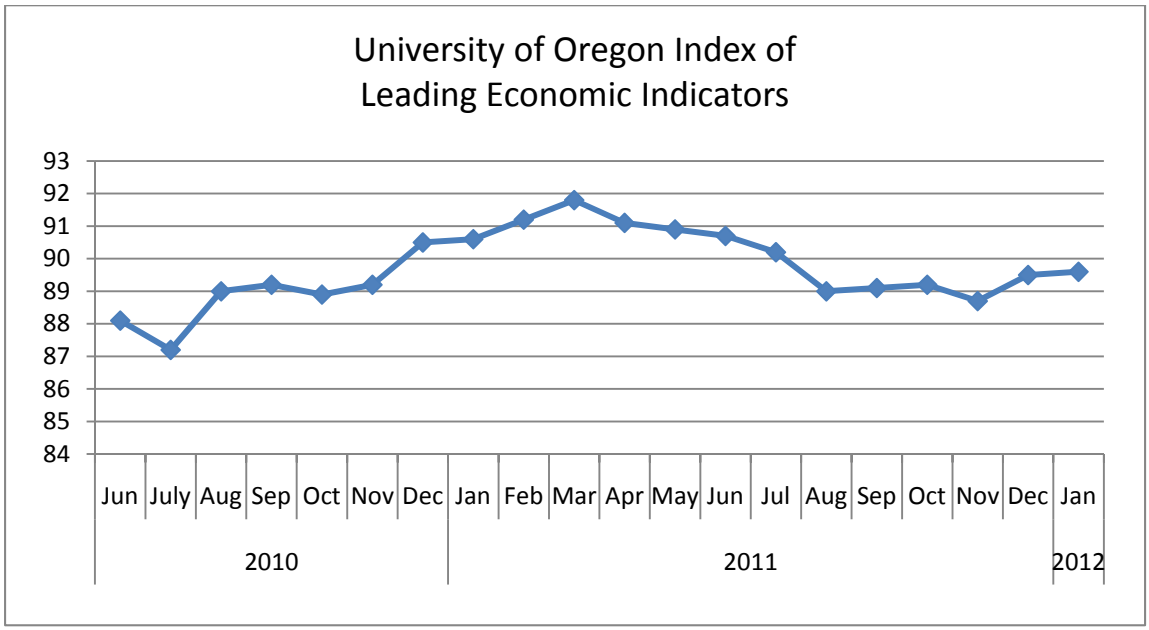
which reported an 11.7 percent increase since January 2011. Alternatively, public construction spending decreased by half of a percent over the same time period.

Foreclosures-



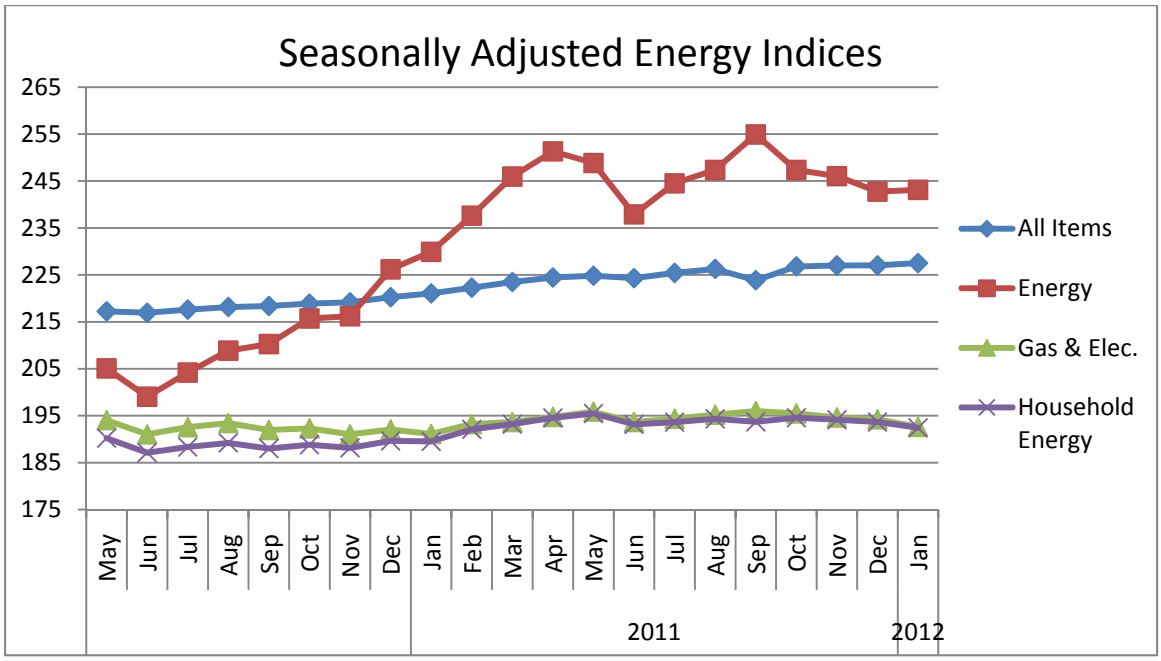


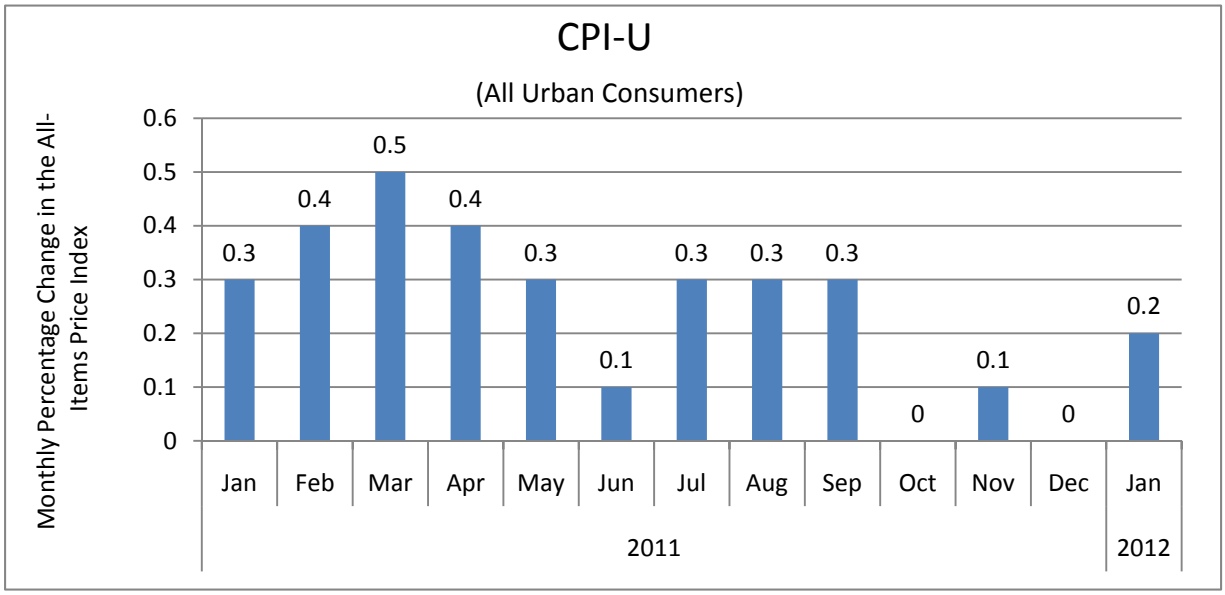
UO Index-



The UO index increased again slightly in January 2012, following a 0.9 percent increase from November to December 2011 (Note: 1997=100). Indicators which comprise the UO index were mixed in January, with good news coming from improved consumer sentiment and growth in residential building permits, but faltering in initial unemployment claims and employment services payrolls, both of which inhibited substantial positive movement in the index.

Price Indices-





"As we had anticipated, overall consumer price inflation moderated considerably over the course of 2011. In the first half of the year, a surge in the prices of gasoline and food--along with some pass-through of these higher prices to other goods and services--had pushed consumer inflation higher. Around the same time, supply disruptions associated with the disaster in Japan put upward pressure on motor vehicle prices. As expected, however, the impetus from these influences faded in the second half of the year, leading inflation to decline from an annual rate of about 3-1/2 percent in the first half of 2011 to about 1-1/2 percent in the second half--close to its average pace in the preceding two years. In an environment of well-anchored inflation expectations, more-stable commodity prices, and substantial slack in labor and product markets, we expect inflation to remain subdued."

Ben Bernanke, *The Economic Outlook and Federal Budget Situation*, 2/2/2012

ISM Report on Business-

"Manufacturing production has increased 15 percent since its trough, and capital spending by businesses has expanded briskly over the past two years, driven in part by the need to replace aging equipment and software. Moreover, many U.S. firms, notably in manufacturing but also in services, have benefited from strong demand from foreign markets over the past few years." –Ben Bernanke Economic Outlook and Monetary Policy

Economic activity in the manufacturing sector expanded in February for the 31st consecutive month, and the overall economy grew for the 33rd consecutive month, say the nation's supply executives in the latest Manufacturing ISM *Report On Business*®.

Around the State-

- Tilla-Bay Farm in Tillamook recently became the first dairy farm in the region to install robotic milkers. As a result, one employee was laid off. *Headlight-Herald, 2/15/2012*

- PacifiCorp will begin construction on a 2-megawatt solar power project near Lakeview in May that should be producing electricity by October. Called the Black Cap project, the 21-acre site will have about 9,000 modules. It is expected to generate electricity for about 400 residential customers. *Herald and News, 3/1/2012*

- The Tillamook County Creamery Association is expanding its Columbia River Processing plant at the Port of Morrow in Boardman. The 40,000-square-foot whey-drying and warehouse facility will create 17 jobs. Operations at the plant are expected to start in February 2013. *East Oregonian, 2/23/2012*

- Bioanalytical Systems Inc., a pharmaceutical development and research company, plans to close its McMinnville laboratory and consolidate operations in Lafayette, Ind. It employs about 20 people. *News-Register, 3/5/2012*

- Navistar International Corp. plans to cease production of motorized RVs at its Monaco RV manufacturing facility in Coburg, resulting in a loss of 255 jobs. *Portland Business Journal, 3/6/2012*

- Mastercraft Furniture Inc. will relocate its Wilsonville furniture factory to Stayton this month. It employs about 150 people and plans to add 100 more over the next two years. *Statesman Journal, 3/2/2012*

- Portland Energy Conservation Inc. will lay off 15 percent of its 380-person workforce as stimulus funded energy projects come to an end. *Portland Business Journal, 2/17/2012*

- Salem Hospital plans to make $30 million in cuts. Thirty jobs will be eliminated and 30 open positions will not be filled. *Statesman Journal, 2/23/2012*

- The Grant County Court approved the master plan for development of the Silvies Valley Ranch, a luxury guest ranch in the Silvies Valley, south of Seneca. So far, the ranch has hired 25 to 30 people. At full build-out, the guest ranch could include 575 units, with a target date for opening in 2016. *Blue Mountain Eagle, 2/15/2012*