RTFC

Capital Connections

RURAL TELEPHONE FINANCE COOPERATIVE

FEBRUARY 23, 2017 | VOL. 29, NO. 1

INSIDE THIS ISSUE

Capital Connections is published quarterly by RTFC.

BETH ANN JOHNSON
Capital Connections Editor
bethann.johnson@nrucfc.coop
800-424-2954, x1645

DANIEL TEDLA
Graphic Designer

For questions on Economic Analysis, contact:
JOHN SUTER
Vice President,
Capital Markets Research & Analysis
john.suter@nrucfc.coop
Phone: 800-424-2954, x1633

For subscription questions or changes, contact:
ELAINE CHANDLER
Corporate Records and Information Services Manager
elaine.chandler@nrucfc.coop
800-424-2954, x1689

Rural Telephone Finance Cooperative
20701 Cooperative Way
Dulles, Virginia 20166
www.rtfc.coop

RTFC Re-Elects Henagan, Johnson at Annual Meeting

Two RTFC board directors were re-elected to three-year terms January 27 during the 29th RTFC Annual Meeting, held at RTFC headquarters in Dulles, Virginia.

Those returning to the board are Raymond Henagan of Rock Port Telephone Company in Missouri (District 5) and J. Frederick Johnson of Farmers Telecommunications Cooperative in Alabama (District 2).

Raymond Henagan

J. Frederick Johnson

Henagan, who presided over the meeting, concluded his tenure as RTFC board president. Following the annual meeting, the board met for an organizational meeting and appointed new officers for 2017:

- *President:* **David Dunning**, Director, Wolverton Telephone Company (ND);
- *Vice President*: **Allen Hoopes**, Chairman and CEO, Silver Star Communications (WY); and
- *Secretary-Treasurer:* **J. Frederick Johnson**, Executive Vice President and General Manager, Farmers Telecommunications Cooperative (AL).

Petersen, Fournier Headline Final Day at RTIME

RTFC CEO Sheldon C. Petersen and RTFC-sponsored speaker Ron Fournier headlined the closing general session of the 2017 NTCA-The Rural Broadband Association Rural Telecom Industry Meeting & Expo, held Feb. 5-8 in San Diego.

Petersen shared his insights on fiscal and monetary policies that could affect rural telcos and the broader U.S. economy. A key theme was Petersen's view that markets will be paying less attention to the Federal Reserve and more to legislation that could boost the U.S. economy, such as immigration reform, trade policy, tax code changes and reform of the Affordable Care Act, otherwise known as Obamacare.

Sheldon C. Petersen

Fournier, a national political journalist and author, talked about his son Tyler and how their relationship has informed his approach to reporting and everyday life. Fournier shared personal stories from his book, "Love That Boy," which explores Fournier's journey as a parent of a child with Asperger's while covering the White House.

NTCA Board President Bill Hegmann, an RTFC District 5 director, kicked off the annual event with a high-energy opening general session where he reminisced about his nearly 50 years in the telecommunications industry and shared some humorous highlights from those decades.

Ron Fournier

The event also included a presentation from NTCA CEO Shirley Bloomfield, an update from the Foundation for Rural Service (FRS), as well as educational sessions on cybersecurity, technology trends, and legislative and regulatory issues. RTFC is pleased to be a Benefactors Circle sponsor of FRS.

Recaps of RTIME sessions are available to view on NTCA's website: www.ntca.org/exchange/category/ntca-events.

Does the Strong Dollar Hurt the Economy?

By Nick Grabowski, Economic Analyst

Nick Grabowski

Last month, the U.S. dollar index—a weighted average of the foreign exchange value of the dollar against a basket of major trading partner currencies—reached its highest point since 2002. According to Bill Gross, manager of the $1.8 billion Janus Global Unconstrained Bond Fund, the dollar has become "the global currency. To the extent that the dollar strengthens, not only are U.S. companies affected by the negative, the global marketplace and other countries are affected, too."

A strong dollar, of course, wreaks havoc on the U.S. trade deficit. American firms lose competitiveness abroad as their goods become more expensive while foreign products become cheaper. Less-expensive items are great for consumers but not for domestic corporations that lose sales. The situation has led to amped up protectionist sentiment in some U.S. political circles as well as the prospect of a trade war.

Moreover, potent dollars hurt U.S. companies that market overseas. Apple has raised the price of iPhones in some foreign countries by as much as 40 percent to offset the declining value of sales when they are converted to dollars. Mark Luschini, chief investment strategist at Janney Montgomery Scott LLC, points out that, "Every 10 percent increase in the U.S. currency trims about 3 percent to 5 percent off earnings growth for the S&P 500."

In addition, a strong dollar hinders global economic expansion. Many companies in emerging-market nations carry dollar-denominated debt since they cannot borrow in local currencies (as that poses too much of a risk to lenders). Any increase in debt-service costs (due to a rising dollar) often leads to cutbacks in investment and jobs. On top of that, because many of these same companies sometimes act as lenders, local credit across peripheral countries gets squeezed as well.

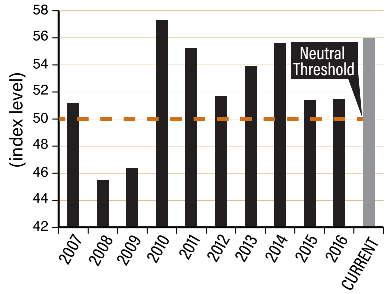
The rising value of the U.S. dollar bears watching, as it could spark more troubles around the world.

U.S. Dollar Index, Since 1995

Manufacturing Hits High Note

The Institute for Supply Management (ISM) Manufacturing Index rose from a revised 54.5 in December to 56.0 in January, well above the neutral threshold of 50 and in solid expansionary territory, despite anemic global economic growth and a strong U.S. dollar. In more good news, the difference between new orders and inventories—a marker for future production—narrowed, indicating factory production should continue to improve.

ISM Manufacturing Index Average, By Year (Since 2007)



Source: Institute for Supply Management

One uncertainty for the sector centers around the possibility of tariffs on Mexican goods. Most U.S. imports from Mexico, which total around $300 billion annually, are directly linked to motor vehicle parts and accessories. A tariff would hike prices that domestic producers pay, some of which would be passed on to consumers. That could inject additional inflation into the U.S. economy.

Productivity Still Somewhat Wobbly

Productivity came in above expectations in the fourth quarter, at 1.3 percent, though not as strong as economists would like to see. Since 2007, productivity growth has averaged 1.1 percent per quarter in contrast to the 2.6 percent average advance seen from 2000 to 2007.

Manufacturing output per hour ticked up 0.7 percent, although business and intellectual property investment remained muted, as did unit labor costs. Economists have been waiting for the tightening labor market to lead to heftier unit labor costs, which should spur productivity growth by providing incentives for companies to invest in productivity enhancements. To help combat existing sluggishness, some analysts have recommended boosting government spending in education and job training.

U.S. Vehicle Sales Cool in January

Car and light-duty truck sales fell from 18.29 million units in December (the highest level since July 2005) to 17.61 million units in January, on a seasonally adjusted basis. Even after seven straight years of new-car sales topping year-before levels, surveys still find pent-up consumer demand due to rising employment, decent wage growth and relatively low gasoline prices.

Employment Rings In 2017 with a Surge

The economy added 227,000 jobs in January, aided by mild weather across much of the country and better-than-usual gains in services. Warm winter conditions allowed construction companies to get more projects underway, accounting for 36,000 extra jobs, while hospitality also came in strong with 34,000 positions.

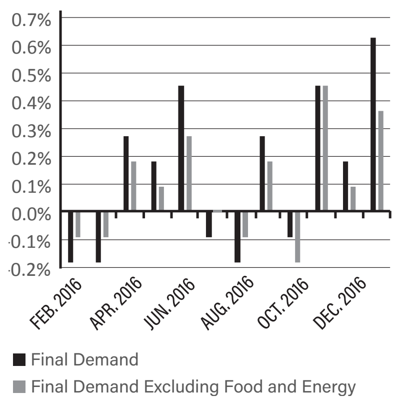
Economic Analysis

The government, meanwhile, shed 10,000 workers, which was largely taken up by the private sector. The unemployment rate, which is derived from a separate survey, climbed to 4.8 percent due to a bump in the labor force participation rate, which inched up 0.2 percent to 62.9 percent. The increase suggests the labor market still has some slack, and lower unemployment may not prompt as much inflationary pressure as anticipated.

Energy Pulls Up PPI

The Producer Price Index (PPI)—a leading indicator of inflation—increased 0.6 percent in January, its largest monthly gain since September 2012. Goods prices, led by a 4.7 percent jump in energy (primarily due to a boost in oil prices), drove the surge. Even without the volatile food and energy components, the PPI still shot up 0.3 percent. At an annualized rate, though, the PPI climbed just 1.6 percent thanks to the strong U.S. dollar tamping down inflation to some degree.

Producer Price Index (February 2016 to January 2017)



Source: U.S. Bureau of Labor Statistics

Policy Uncertainty Index Falls Once More

In a sign that more stable economic footing may be at hand, Moody's Analytics Policy Uncertainty Index continues to head south. The four-week moving average came in at 71.2 during the last week of January, compared with 73.4 the week before—its fourth consecutive slide, and one largely tied to the drastic bump in business sentiment stemming from the election of President Trump. However, the index as a whole remains elevated and further unease will likely lead businesses to curtail hiring and investment spending, especially for research and development.

Moody's Analytics uses six equally weighted components to determine the uncertainty score—three each that represent fiscal and monetary policy:

- Percent of business survey respondents who say regulation/legal issues are their biggest worry;
- Five-year expected default rates;
- The value of expiring tax provisions;
- 10-year estimates of Consumer Price Index dispersion;
- Forecasted unemployment rates
- 12 months out; and
- The spread of Libor versus the overnight indexed swap.

Wholesale Trade on a Roll

In December, wholesale trade—a good gauge of consumer trends, as it looks at business sales and inventories—grew a strong 1 percent for the second month in a row. On a year-ago basis, wholesale inventories alone have expanded 2.6 percent.

Oil has been pumping life into this sector. With West Texas Intermediate crude now above $50 a barrel, formerly idle rigs are springing back into action as gas stations have begun buying fuel in bulk to hedge against anticipated price hikes.

Import Prices a Mixed Bag

While import prices came in 0.4 percent higher in January, according to the Import Price Index from the U.S. Bureau of Labor Statistics, the nonfuel segment—a key for measuring domestic inflation—fell 0.2 percent for the third consecutive month. This means that foreign goods from French cheese to Japanese cars have generally become cheaper. Appreciation of the dollar, which in 2016 gained 4.4 percent against the currencies of our main trading partners, has helped to depress prices.

Last year, import prices overall rose 3.7 percent with non-petroleum import costs up 0.3 percent. That was a marked change from deflationary trends seen in 2014 and 2015.

RECENT ECONOMIC RELEASES

INDICATOR	PRIOR PERIOD	CURRENT PERIOD (FORECAST)	CURRENT PERIOD (ACTUAL)
Institute for Supply Management Manufacturing Index (Jan.)	54.5	55	56
Productivity (Q4)	3.5%	1.0%	1.3%
Wards.com Domestic Vehicle Sales (Jan.)	18.29 million	17.5 million	17.61 million
Unemployment (Jan.)	4.7%	4.7%	4.8%
Producer Price Index (Jan.)	0.2%	0.3%	0.6%
Policy Uncertainty Index (week of Jan. 29)	73.4	---	71.2
Wholesale Trade (Dec.)	1.0%	1.0%	1.0%
Import Price Index (MoM) (Jan.)	0.4%	0.3%	0.4%

Source: Bloomberg

KEY INTEREST RATES				RATE FORECAST—FUTURES MARKET			
	12/5/16	2/13/17	CHANGE	Q1-17	Q2-17	Q3-17	Q4-17
Fed Funds	0.50%	0.75%	0.25	0.75%	1.00%	1.00%	1.25%
1M Libor	0.65%	0.77%	0.12	0.86%	1.00%	1.13%	1.29%
3M Libor	0.95%	1.04%	0.09	1.13%	1.26%	1.40%	1.56%
2-yr UST	0.12%	1.20%	0.08	1.75%	1.90%	1.85%	1.85%
5-yr UST	1.85%	1.91%	0.60	2.27%	2.34%	2.27%	2.27%
10-yr UST	2.41%	2.44%	0.03	3.17%	3.23%	3.21%	3.21%
30-yr UST	3.08%	3.03%	-0.05	3.34%	3.39%	3.34%	3.34%

Source: Bloomberg

Source: INO.com

Kansas Native Pai Takes FCC Helm

Ajit Pai

Rural leaders are pleased with President Donald Trump's recent appointment of Ajit Pai to chair the Federal Communications Commission. Pai, a Republican, replaces former chair Tom Wheeler, a Democrat.

A native of the Sunflower State, Pai joined the commission in 2012. "I look forward to working with the new administration, my colleagues at the commission, members of Congress and the American public to bring the benefits of the digital age to all Americans," Pai said in a statement.

NTCA–The Rural Broadband Association applauded Pai's appointment. "Since joining the commission in 2012, Commissioner Pai has shown a commitment to solving rural broadband challenges and to thinking creatively about ways our country can more effectively deploy and sustain advanced communications in rural America," NTCA CEO Shirley Bloomfield said in a statement.

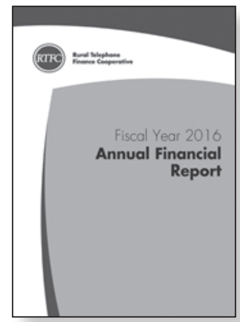
She continued, "Having grown up in a small town in Kansas… he has a deep and genuine understanding of how the services that NTCA members deliver improve the quality of life and promote economic development in our rural communities."

Shortly after the announcement, Bloomfield wrote in her blog, "The chairman has a true sense of the challenges that exist in bringing advanced services to rural America. Even when we have not found complete agreement on the policy front, he and his team have always been willing to meet and to talk things through."

Bloomfield said Pai is already moving fast, most notably on a digital empowerment agenda aimed at expanding and enhancing rural broadband access while reducing regulatory burdens for small businesses.

"I have long admired his proactive efforts to seek input from stakeholders and remember a broadband roundtable he hosted in Kansas in the first few weeks of his tenure at the commission, with a number of our broadband providers in attendance," she recalled.

RTFC Publishes FY16 Financial Report



RTFC recently published its fiscal year (FY) 2016 financial results. A digital version of the annual report is available on the RTFC website in the Member Center (login required).

During FY 2016, RTFC continued to fulfill its vision "to create value for the rural telecommunications industry by providing superior financial services."

In the last year, the cooperative has provided lending for acquisitions, capital expenditures, refinancing, working capital and pension prefunding along with offering lines of credit for members.

Members can contact their RTFC account manager today at 800-346-7095, to set up a line of credit or discuss other credit needs.

Rural Telephone Finance Cooperative
20701 Cooperative Way
Dulles, Virginia 20166
Address Service Requested

Presorted
First-Class Mail
US Postage Paid
Permit #465
Dulles VA 20166