RTFC

Capital Connections

AUGUST 16, 2018 | VOL. 30, NO. 3

RURAL TELEPHONE FINANCE COOPERATIVE

Big Sky Co-op Taps RTFC Funding to Fulfill Commitment to Community

Nemont Telephone Cooperative has been connecting Montana residents to their communities and the world through innovative network solutions and superior local service for nearly 70 years. And since 2003, RTFC has been right there helping them finance the mission launched in 1950.

Mike Kilgore

"We are committed to the communities we serve and the important role we play in their lives," says Nemont CEO Mike Kilgore. "With help from RTFC, we are able to continue to provide high-quality, advanced and competitive communications services to our rural customers, fulfilling our vision of 'Building More Than a Network.'"

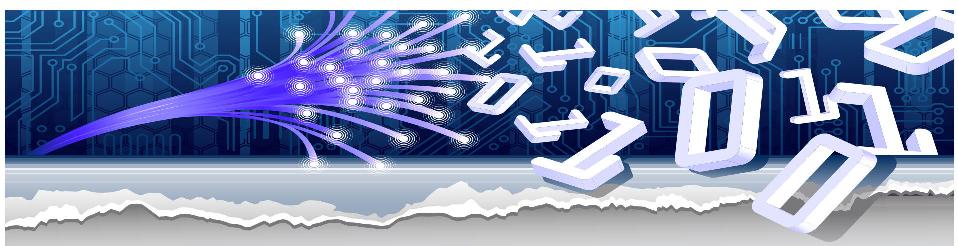
Headquartered in Scobey, Montana, Nemont and its subsidiaries provide voice, data, video, wireless and long-distance services in 50 telephone exchanges to approximately 20,000 subscribers in Montana, North Dakota and Wyoming.

RTFC helped Nemont fund the acquisition of Missouri Valley Communications—a North Dakota independent local exchange carrier—in 2003. Four years later, RTFC provided a term loan to finance fiber to the premise. Since then, Nemont has completed 19 exchange upgrades and reached 4,107 locations with fiber—allowing customers to subscribe to its gigabit-speed broadband service.

In 2013, Nemont turned to RTFC again. "We consolidated our debt with RTFC because they are an RUS pre-approved lender and easy to work with," explains Remi Sun, the company's CFO. "RTFC provides good turnaround time to better meet our needs and has a friendly and competent staff."

When Nemont was granted Mobility Fund Phase I awards for wireless expansion, the government advanced one-third of the funding up front, leaving Nemont to arrange the other two-thirds to complete the project and then seek reimbursement. RTFC was there to fill the need.

Today, RTFC continues to provide Nemont with long-term funding and working capital. "We're currently using cash generated from internal operations for capital projects; however, knowing we have RTFC funding facilities available helps us from a strategic planning perspective," concludes Kilgore, who adds that Nemont continues to plan upgrades for both the wireline and wireless networks to better serve its customers.



Bridge Loans Let You Launch Government-Approved Telecom Projects Months or Years Sooner

Government funding is coming for many rural telcos—whether it's in the form of an RUS loan, grant or other support such as Connect America Fund (CAF) Phase II funding. If you're a recipient, don't let federal delays put the brakes on your project. Reach out to RTFC today for bridge financing so you can start right away.

"RTFC is here to provide customized solutions for interim financing," points out RTFC Senior Vice President Robin Reed. "Bridge financing gives our members the ability to execute on expansion or upgrade projects while permanent financing is pending."

By offering the ability to start buildouts as soon as permanent funding is approved, interim financing can speed up the window to cash flow.

"When it comes to bridge funding, facilities can be put in place relatively quickly and structured as secured or unsecured lines of credit," Reed explains. "They carry a variable interest rate and typically offer terms up to two years."

Interim facilities may require approval allowing the permanent loan funds or grants to be used to repay the bridge loan. Contact your RTFC account manager today to discuss the opportunities.

Hang Tight! It's Stormy Waters for Market Watchers

By Nick Grabowski, Economic Research Analyst

Remember the good ol' days of 2017 when the stock market was all sunshine and roses? The Dow Jones Industrial Average rose by 26 percent, the NASDAQ climbed 28 percent and the S&P 500—an even broader index—shot up 19 percent. All three of these major indexes experienced their largest gains since 2013.

Economic growth and corporate profits have been high, and the Tax Cuts and Jobs Act of 2017 promised even healthier earnings as we closed out 2017 and launched 2018. Bloomberg Intelligence estimates that companies in the S&P 500 index are on track to report second-quarter earnings of 25 percent on average. This would be the best performance since the fourth quarter of 2010. According to Bianco Research, 85 percent of companies have beat earnings expectations so far this year.

Despite those success stories, the steady market gains of 2017 have given way to turbulent waters in 2018. Volatility is back, and so far it has been rough sailing for the market.

From February to April, the S&P 500 gained or lost at least 1 percent on nearly half of all trading days—mostly thanks to fears over President Trump's shifting U.S. trade policy. The winds of change are blowing, and a trade war could lead to increased tariffs and business reductions, slashing straight to companies' bottom lines.

The Federal Reserve is also contributing to market uncertainty. Beginning in November 2008, during the Great Recession, the Fed—through a process called quantitative easing (QE)—slowly amassed a balance sheet topping $4.5 trillion, composed of roughly $2.7 trillion in Treasury bonds and $1.8 trillion in mortgage-backed securities (MBS), as a way to juice the economy. But last fall, the Fed decided to shrink that amount by simply letting bonds roll off its books without actively selling them. The process starts by allowing $6 billion in Treasuries and $4 billion in MBS to mature every month. Those caps will then be raised every three months until they reach a maximum of $30 billion per month for Treasuries and $20 billion per month for MBS.

Many economists argue that QE artificially inflated stocks and the gradual "qualitative tightening" now underway along with planned Fed hikes in short-term interest rates through 2019 will further boost volatility. Housing also concerns some investors. Low supply and high demand plague the market.

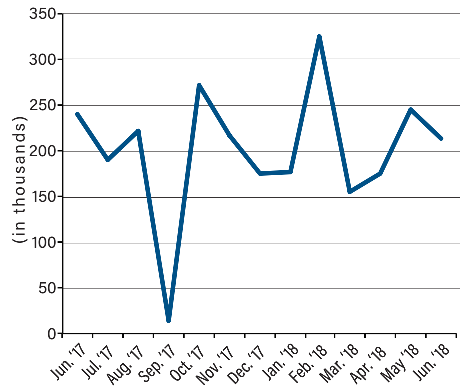
Altogether, this year has been a mixed bag for stocks. Despite strong earnings and solid economic growth, it looks like choppy waters are in the market forecast for 2018.

S&P 500 Index in 2018

Healthy Hiring Helps Spike Unemployment

While the economy added 213,000 jobs in June, above expectations, the unemployment rate actually ticked up from 3.8 percent to 4 percent as more people left the sidelines to join the labor force. In addition, the number of workers quitting their jobs to search for new ones hit its highest level since 2000.

Jobs Added Over the Past Year (by month)



Source: U.S. Bureau of Labor Statistics

In a sign of continuing slack in the labor market, the underemployment, or U-6 rate—which includes the unemployed as well as discouraged workers who have quit looking for a job and part-time workers seeking full-time employment—rolled in at 8.1 percent, up sharply from 7.3 percent in May but about where it has averaged over the past year. The U-6 peaked at 17.9 percent in February 2010.

Industrial Production Kicks Up a Notch

Industrial production rebounded in June, expanding by a solid 0.6 percent and standing 3.8 percent better than a year earlier. Utilities production slipped 1.5 percent from May, though it held 5 percent above last year, with mining growing 1.2 percent for the month and 12.9 percent over the past year due to gains in the oil and gas sector.

Manufacturing production rose 0.8 percent, which almost paved over the 1 percent contraction seen in May caused by auto parts supply-chain disruptions. In addition, capacity utilization climbed to 78 percent, the second best rate of 2018 and suggesting more manufacturing momentum than previously anticipated.

Manufacturing Rebounds

The Institute for Supply Management Manufacturing Index in June bounced up to 60.2, above the mark that predicts building inflationary pressure. Supplier deliveries advanced from 62 to 68.2, the highest point since 2004 and a sign that shipments are slowing down as suppliers struggle to meet demand.

The employment index, meanwhile, tumbled slightly from 56.3 to 56—not significant—while new export orders increased from 55 to 56.3 and import orders from 54.1 to 59.

Durable Goods Climb

New orders for durable goods advanced 1 percent in June—a positive development as it breaks two consecutive losing months. Orders stand 3 percent higher than a year ago. The ever-volatile defense aircraft segment led the way, up 20.2 percent, with the nondefense sector rising 4.3 percent.

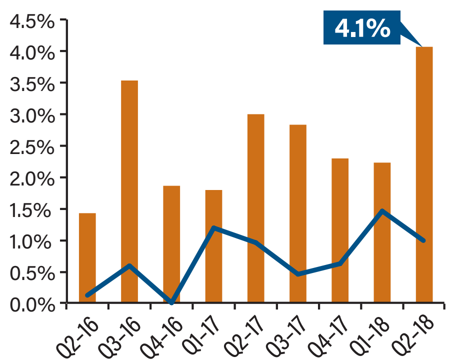
However, the tally was well below consensus forecasts of 3 percent growth. The main reason was a decline in defense capital goods spending of 11.6 percent, although that largely came about due to hefty expenditures the past two months.

GDP Sees Q2 Surge

The nation's gross domestic product zoomed in the second quarter, accelerating at a rate of 4.1 percent, the best in four years. Consumer spending, business investment, exports and government spending all rolled in strong, leaving little doubt that the second-longest economic expansion in U.S. history still has some oomph left.

Consumer spending rose 4 percent, durable goods gained a whopping 9.3 percent while nondurables and services climbed 4.2 percent and 3.1 percent, respectively. Business investment also turned in a stellar report. Nonresidential investment rocketed 7.3 percent following an 11.3 percent boost last quarter, a sign companies are buying more equipment and materials. While this tends to happen in the middle stages of a business cycle as profits increase and capacity constraints develop, the trend has been given a shot in the arm by corporate tax reform.

U.S. GDP Performance Since Q2-16



Exports also saw a bump, with net exports contributing 1.06 percentage points to growth, in large part due to a dash by overseas buyers to purchase soybeans before China's 25 percent retaliatory tariffs went into effect. In addition, changes in trade policy slowed imports.

Clouds on the horizon include the Federal Reserve's plans to raise interest rates on a gradual basis through 2019 and the possibility that a trade war with China may spur investor anxiety and drive down markets.

Richmond Fed Survey Hints at Inflation

While the July Richmond Federal Reserve Fifth District Survey of Manufacturing Activity ticked down to 20 from 22 the month before, the decrease does not appear significant as output looks solid. All indications point to stable demand—new orders are unchanged and the whole shipments component, at 16, remains robust.

Yet inflation warnings are intensifying. The Prices Paid Index reached its highest level since 2012, with prices that factories expect to receive for the goods they make jumping from 1.4 percent to 2.7 percent—tops since August 2011. Raw materials and a shortage of skilled workers have swelled production costs, which in turn will impact the price tag on finished items.

With inflation pressures like this building, the Federal Reserve seems certain to stay on course to hike short-term interest rates 25 basis points two more times this year, likely in September and December.

— Nick Grabowski

	KEY INTEREST RATES			RATE FORECAST—FUTURES MARKET			
	5/8/2018	7/31/2018	CHANGE	Q3-18	Q4-18	Q1-19	Q2-19
Fed Funds	1.75%	2.00%	0.25	1.96%	2.22%	2.40%	2.56%
1-mo. Libor	1.93%	2.08%	0.15	2.22%	2.49%	2.67 %	2.79%
3-mo. Libor	2.35%	2.35%	0.00	2.44%	2.69%	2.84%	2.95%
2-yr. UST	2.50%	2.67%	0.17	3.06%	3.13%	3.13%	3.13%
5-yr. UST	2.79%	2.84%	0.05	3.16%	3.20%	3.25%	3.25%
10-yr. UST	2.96%	2.95%	-0.01	3.68%	3.70%	3.71%	3.71%
30-yr. UST	3.13%	3.08%	-0.05	3.66%	3.69%	3.70%	3.70%

Source: Bloomberg

Source: INO.com

Samonte Offers Advice on 'Financing for Change'

RTFC Vice President of Portfolio Management Don Samonte hit the road this summer, attending several regional meetings hosted by NTCA – The Rural Broadband Association to speak about "Financing for Change."

His presentation covered:

- Recent trends in borrower inquiries;
- RTFC financing products (term loans and lines of credit);
- How to prepare for a loan request; and
- The value of "early and often" communication in the borrower/lender relationship.

"We're getting a lot of inquiries about CAF II funding along with acquisitions," Samonte notes. "No matter what the financing need, early discussions with lenders are key to taking advantage of opportunities. Even early in your planning process, we're ready and willing to talk about how RTFC can meet your changing borrowing needs." //

RTFC Sponsors Acclaimed Adventurer at Fall Conference

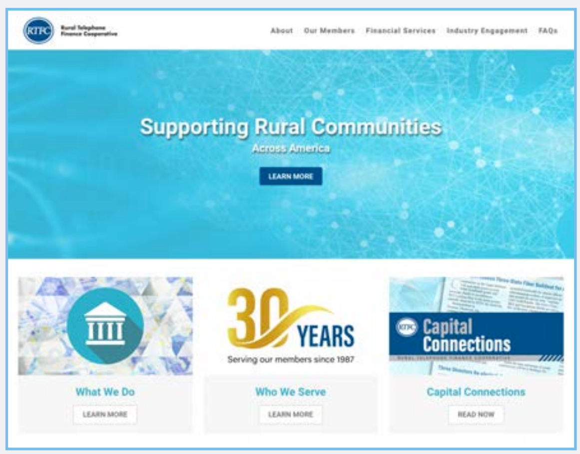
RTFC is pleased to sponsor keynote speaker Jamie Clarke at NTCA's 2018 Fall Conference in Seattle. CEO of LiveOutThere.com and a renowned Mount Everest adventurer, Clarke will take the stage September 17.

One of only a handful of climbers to have scaled the Seven Summits—the highest mountains on each of the seven continents—Clarke will share his personal story spanning the highest peaks of adventure and business success, including secrets to developing successful teamwork and establishing purpose. //

RTFC Website Gets Facelift

The RTFC public website launched a new look last month. Featuring a more modern layout, the enhancements will help visitors access information more easily. Upgrades to the private (Member Center) section of the website will follow over the coming years.

Behind the scenes, the new website takes advantage of cloud architecture, mobile responsive design and modern frameworks to boost usability and minimize internal maintenance. Visit rtfc.coop to check it out!



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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

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

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