



Capital Connections

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RURAL TELEPHONE FINANCE COOPERATIVE

RTFC Letters of Credit Back Borrowers Receiving CAF II Auction Funding

RTFC recently provided letters of credit to support 13 borrowers that were awarded more than \$15 million from the Connect America Fund Phase II (CAF II) reverse auction that closed in August. The winning bidders had until November 5 to submit letter of credit commitments from an eligible financial institution.

Wikstrom Telephone Company (WTC), based in Karlstad, Minnesota, received a CAF II award of more than \$530,000 of assigned support over 10 years to plow fiber-to-the-home for about 50 rural subscribers with no access to broadband Internet.

Not realizing RTFC was an option for the letter of credit, WTC initially tried to work with a large bank, but the experience was cumbersome and frustrating, especially with the deadline looming. “Fortunately, we looked closer at the FCC order and realized RTFC was an option,” says WTC Controller Carrie Taggart. RTFC was able to arrange the CAF II letters of credit through its affiliate National Rural Utilities Cooperative Finance Corporation, which



“RTFC is our industry at its very best. This process proved that RTFC should always be our first call.”

– Carrie Taggart

is an eligible provider per the FCC order.

“One 20-minute phone call with Irina Tumanova at RTFC, and we felt just as taken care of as the first time we borrowed from RTFC 15 years ago. The procedure was simple thanks to RTFC’s knowledge of the FCC and the CAF II order,” she continues. “We could not be more pleased or thankful to RTFC for the last-minute acceptance of our application and the assistance after approval.”

Founded in 1947, WTC is an incumbent and competitive local exchange carrier that provides phone, Internet and long-distance service to roughly 13,000 subscribers across 18 exchanges in northern Minnesota.

“RTFC is our industry at its very best,” Taggart concludes. “They treated us with the highest quality of service. Today it was a letter of credit. Tomorrow we may need another long-term loan. Either way, this process proved that RTFC should always be our first call.”

The CAF II auction ran from July 24 to August 21, 2018. Roughly 100 bidders won \$1.49 billion in support to provide fixed broadband and voice services to 700,000 locations in 45 states.

In addition to the letters of credit, RTFC provides construction financing to support CAF II recipients. Such financing can help awardees achieve buildout milestones in a timely manner. //

Annual Meeting Set; Look for Mail Ballots in January

RTFC’s 31st Annual Membership Meeting will take place January 29 at 9 a.m. at RTFC headquarters in Dulles, Virginia. Board President Allen Hoopes will preside, and members will vote to fill two positions on the RTFC Board of Directors.

All voting members will receive a packet of information about the meeting shortly after the first of the year. It will include candidate profiles and mail-in ballots. Completed ballots must be received at RTFC headquarters by January 21 to be counted. According to RTFC’s bylaws, ballots sent via any delivery service other than the U.S. Postal Service cannot be counted.

The call for director candidates was mailed to RTFC voting members in districts with an open board seat in early November. The RTFC Nominating Committee then selected the slate from those who put forth their names by the November 28 deadline:



- DISTRICT 3: **Dave Dunning**, Director, Wolverton Telephone Company (ND)
- DISTRICT 4: **Allen Hoopes**, Chairman and CEO, Silver Star Communications (WY)

Additional candidates may be added to the ballot by completing the petition process described in the RTFC bylaws. Both positions are for three-year terms.

If you have any questions, please contact Director of Member Communications Perry Stambaugh, 703-467-1653 or perry.stambaugh@nrufc.coop.

Oil Prices Fall on Worries About Shaky World Economy

By John Suter, Vice President, Capital Markets Research & Analysis



John Suter

Oil prices have sunk recently due to a planet-wide supply glut. In early October, crude prices hit a yearly high of \$76.41 per barrel. But they retreated to the mid-\$50s by mid-November and low-\$50s by the end of the month.

Compounding the collapse has been crumbling confidence in the global economy. Among the G-7 nations (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States) plus China, only the United States will show positive growth in 2018, according to the most recent survey by the International Monetary Fund. In

turn, projections for 2019 oil demand are being revised downward, with the U.S.-China trade war raising fears of a sharp slowdown in economic activity across the Asia-Pacific region.

Oil's supply-demand imbalance stems largely from the U.S. shale boom. In a turnaround unthinkable a decade ago, the United States has emerged as the world's top oil producer, pumping out 13 percent of global crude, nearly twice what rigs kicked out in June 2008—an amount that is projected to keep going up. Moreover, Saudi Arabia, the de facto leader of the Organization of the Petroleum Exporting Countries, has signaled it may cut output in 2019.

Oil prices can be a double-edged sword, of course. If they climb too fast, consumers get squeezed by rising gasoline prices. But if they fall too far, drillers need to cap wells, which slashes employment.

Earlier this year, expectations that supplies would drop off after President Donald Trump reimposed sanctions on Iran sparked predictions of \$100-per-barrel oil. However, waivers granted to eight governments to purchase Iranian oil were implemented before the restrictions took full effect, easing concerns about shortages.

Over the long term, energy experts still believe that oil consumption—and prices—will advance. As it has so many times in the past, the oil industry will respond by reversing gears and opening the spigots.

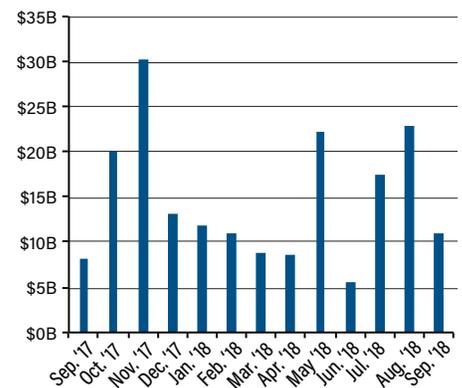
Fall 2018 Oil Bust



Consumer Credit Underwhelms

Consumer credit rose by \$10.92 billion in September—the smallest bump since June—to a seasonally adjusted \$3.95 trillion and an annual growth rate of 3.3 percent. That marked a huge drop from August's nearly \$22.9 billion.

Consumer Credit



Source: Bloomberg

Nonrevolving debt—such as student and car loans—accelerated by \$11.2 billion, although the 4.7 percent annual gain was the smallest since February. Nonrevolving balances have not shrunk since April 2011.

Revolving credit balances, notably credit cards, slipped by \$312 million, a 0.4 percent year-over-year decline and the third in six months.

Overall, credit climbed at a seasonally adjusted annual rate of 3.3 percent, compared with 7 percent the prior month; the 5.3 percent boost for the third quarter was the fastest since late 2017.

With interest rates rising, growth in consumer credit should slow going forward. Consumers will want to borrow less and not spend more money on debt servicing.

Retail Sales Rebound

Following two months of declines, retail sales grew by 0.8 percent in October and were up 4.6 percent from year-ago levels. The turnaround heading into the holiday season bodes well for the economy.

ECONOMIC ANALYSIS

Growth in gasoline station sales was particularly strong, at 0.5 percent. Even when removing gasoline stations and car dealers, sales swelled 0.3 percent.

The main retail risk stems from trade tensions, notably if tariffs propel prices of consumer goods.

Industrial Production Climbs in October

Industrial production registered its fifth consecutive monthly advance in October, with the headline number rising 0.1 percent from September. Overall, industrial production has improved in eight of the past nine months and rests 4.1 percent higher on a year-ago basis.

Manufacturing output increased 0.3 percent, supported by a bounce in the automobile sector. Utilities and mining production fell 0.5 percent and 0.3 percent, respectively, although logging healthy 1.7 percent and 13.1 percent gains from a year ago.

Consumer Prices Seem To Be Strengthening

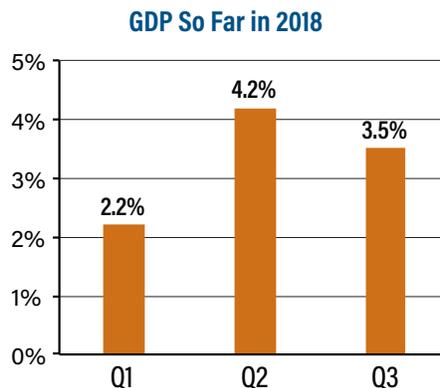
The headline Consumer Price Index (CPI)—the most common inflation measure, which captures average prices for a common basket of goods and services—rose 0.3 percent in October, the most in nine months. On a year-ago basis, headline CPI came in 2.5 percent higher, slightly better than September's 2.3 percent.

Gains in the cost of gasoline, rents and used-car prices led the way. The CPI for energy, in fact, surged 2.4 percent from the month before and 8.8 percent from a year ago. Core CPI, which excludes volatile food and energy components, jumped 0.2 percent and stands at 2.1 percent over the past 12 months.

With CPI trending where the Federal Reserve would like it to be, expect to see another 0.25 percent interest rate hike later this month.

GDP Still Zipping Along

The nation's gross domestic product zoomed ahead again in the third quarter, accelerating at a rate of 3.5 percent, faster than expected. Consumer spending, which makes up about 70 percent of economic activity, was up a solid 4 percent from last quarter—its best showing since the fourth quarter of 2014—and contributed 2.7 percentage points to growth.



Source: U.S. Bureau of Economic Analysis

Inventories pumped in 2.1 percentage points, although this metric will probably weaken in coming months. While trade cut performance by 1.8 percentage points, year over year it advanced 3 percent—tops since the second quarter of 2015.

All in all, the first-read on the headline number indicates a healthy economy. Looking ahead to 2019, GDP will

likely moderate as the recent boost from corporate tax cuts wanes, the hefty dollar weighs on exports, interest rates climb and impacts from the bubbling global trade fight kick in.

Employment Picture Remains Robust

The economy added 250,000 jobs in October after a sluggish previous month, keeping the 49-year low unemployment rate steady at 3.7 percent. The labor force participation rate also jumped, to 62.9 percent, with the employment-to-population ratio increasing from 60.4 percent to 60.6 percent. However, the median length of time folks were out of work bumped up to 9.4 weeks.

Wages—largely stagnant for the past 18 years—grew by 3.1 percent, the largest leap since 2009, and more in line with where economists expect it to be at this stage of the business cycle given flush payroll numbers and a high number of job openings.

The report means the Federal Reserve will be inclined to raise short-term interest rates another 0.25 percent in December to stay ahead of inflation in a tightening labor market.

— Nick Grabowski

	KEY INTEREST RATES			RATE FORECAST—FUTURES MARKET			
	7/31/2018	11/22/2018	CHANGE	Q4-18	Q1-19	Q2-19	Q3-19
Fed Funds	2.00%	2.25%	0.25	2.28%	2.44%	2.59%	2.68%
1-mo. Libor	2.08%	2.31%	0.23	2.52%	2.65%	2.77%	3.12%
3-mo. Libor	2.35%	2.65%	0.30	2.74%	2.84%	2.94%	3.00%
2-yr. UST	2.67%	2.78%	0.11	3.16%	3.17%	3.17%	3.17%
5-yr. UST	2.84%	2.86%	0.02	3.21%	3.22%	3.22%	3.22%
10-yr. UST	2.95%	3.04%	0.09	3.69%	3.71%	3.71%	3.71%
30-yr. UST	3.08%	3.30%	0.22	3.78%	3.81%	3.81%	3.81%

Source: Bloomberg

Source: INO.com

Telecom Exec Nancy White Joins RTFC Staff

Nancy White recently joined RTFC as vice president of business development, bringing more than 30 years of experience in the telecom industry. In her most recent post, she was at the helm of North Central Telephone Cooperative in Tennessee.



Nancy White

Chief among her duties will be engaging with members at industry events and promoting the benefits of RTFC membership.

“I look forward to working with our members and getting to know those I haven’t yet met while helping RTFC further its mission of serving the rural telecommunications industry,” says White, who comes to the job with a deep knowledge of the challenges confronting rural providers.

“NCTC was one of the first independent telcos in the United States to receive ‘GiG Capable’ certification and to have our service area awarded the National Smart Rural Community Award by NTCA,” White recalls. “I understand the hurdles RTFC members face in connecting their communities with the latest technologies, and I’m here to help them access the financing they need to better serve their consumers.” //

IN BRIEF

Your Invoice Has a New Look

If you receive an invoice from RTFC in December, you will probably notice it has a different appearance with more data. RTFC has begun using a new software to generate member loan invoices. The refreshed version offers greater detail on historical loan activity and a more reader-friendly appearance.

Behind the scenes, the process of upgrading loan origination and servicing systems will make RTFC more effective in serving members’ financial needs and better support operational efficiency.



Visit RTFC Staff at RTIME

RTFC staff will be sitting down with borrowers to discuss their current and future financing needs at NTCA’s Rural Telecom Industry Meeting and EXPO (RTIME) in New Orleans in February.

Consulting room time slots are available on Monday, February 4. Reserve your time today by contacting Don Samonte at don.samonte@nrucfc.coop. It’s never too early in the planning process to open the financing discussion with RTFC staff!

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