



Capital Connections

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RURAL TELEPHONE FINANCE COOPERATIVE

RTFC Members Find Value, Liquidity with CFC Investment Products

RTFC members Dakota Central Telecommunications and Lakeland Communications might serve different communities, but they share one thing in common—both have been investing with RTFC’s affiliate for more than a quarter century.

Wisconsin-based Lakeland Communications has used the investment products offered by National Rural Utilities Cooperative Finance Corporation (CFC) for almost 30 years and has a healthy familiarity with CFC’s investment options. John Klatt, president and CEO of Lakeland and also an RTFC board member, has found the benefits from



John Klatt

investing in CFC products include “liquidity, flexibility and stability.”

“I know whom I’m working with and have a high degree of confidence in investing with CFC.

That’s the reason we chose this above other investment vehicles,” Klatt explains.

RTFC operates under a management agreement with CFC, which serves the financial needs of rural electric cooperatives. CFC investment products are flexible options that allow RTFC members to put their cash balances to work. These include short-term investments, like CFC Commercial Paper and CFC Select Notes, and long-term investments, like CFC Medium-Term Notes.

At August 31, 2022, investments in CFC products totaled approximately \$5.5 billion, with CFC Select Notes totaling \$1.7 billion, followed by CFC Commercial Paper with \$1.4 billion invested.

“Short-term investing with CFC has allowed us to take advantage of increasing rates rather than missing out by being locked into a 12-month CD,” says Holly Utke, chief executive officer and general manager at North Dakota-based Dakota Central, which placed its first investment with CFC more than 26 years ago.



Holly Utke

“In the past we utilized CDs to manage cash reserves. However, tying up funds for a year or more to get a similar or lesser return wasn’t ideal. Investing with CFC is much less labor intensive than holding multiple CDs with varying maturity dates in multiple banks and credit unions,” Utke says.

In addition to the liquidity that comes from investing with CFC, Utke says Dakota Central has found that “the interest we’ve earned on our CFC investments has been substantial.”

Lakeland Communications has also seen competitive returns from its investments with CFC over the years. Klatt says that the CFC products his firm has used earn better returns than his local and regional banks can provide.

“The CFC rates are very competitive. I was surprised when they were at the 4 percent level. I would have been happy with 2 percent,” he says.

To other RTFC members considering investments with CFC, Klatt suggests they “should look into CFC investments and see what they can get compared with any other investments they’re using.”

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Annual Meeting Set for San Diego; Look for Ballots Soon

RTFC’s 35th Annual Membership Meeting will take place February 19 at 4:30 p.m. in conjunction with NTCA’s Rural Telecom Industry Meeting and Expo (RTIME) in San Diego, California. Members will hear from RTFC Board President Bruce Bohnsack, president and CEO of Germantown Telephone Company, and vote to fill one open position in District 2 on the RTFC board.



All voting members will receive a packet of information about the meeting toward the end of the month. It will include the candidate profile and mail-in ballots. Completed ballots must be received at RTFC headquarters by February 13 to be counted.

The call for director candidates was mailed to RTFC voting members in District 2 in November. The RTFC Nominating Committee then presented the following candidate for consideration: J. Frederick Johnson, chief executive officer of Farmers Telecommunications Cooperative in Alabama.

Smart Communities Initiative Showcases Broadband Success Stories

E-sports, telehealth and telework are concepts that were foreign to many communities several years ago, but the pandemic and the growing reach of broadband into rural America has changed the way the internet changes us. From economic development to revitalizing education and workforce development, NTCA's Smart Communities initiative celebrates the achievements of locally operated rural broadband providers.



Nancy White

RTFC is a sponsor of the initiative and Vice President of Business Development Nancy White has been engaged with it since 2014 when she was at the helm of a telecom company that became the 14th of more than 200 program participants. Since then, she has been on the Smart Communities Advisory Council for five years, serving as chair since 2020. Formerly called the Smart Rural Community program, the initiative recently dropped the word "rural" in its name. "Our focus hasn't changed. We just want to be more inclusive to promote that some communities are tribal and some are suburbs that don't think of themselves as 'smart rural' but rather as 'smart connected' communities," White says. "We're all united by our focus on fiber and desire to bring the best to our neighbors."

RTFC Members Find Value, Liquidity . . .

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How To Invest with CFC

Four CFC investment products are available for RTFC members:

- **CFC Daily Liquidity Fund:** Delivers a competitive return for liquid, overnight investments of at least \$50,000.
- **CFC Commercial Paper:** Provides a short-term investment option for excess cash of \$5,000 or more at maturities of one to 270 days.
- **CFC Select Notes:** Offers a longer minimum maturity but also a higher rate of return than other CFC short-term investment products. Terms range from 30 to 270 days, with a minimum \$100,000 investment.
- **CFC Medium-Term Notes (MTN):** Provides a more attractive interest rate than short-term products on funds invested for terms of 10 to 24 months. Minimum investment is \$100,000.

RTFC members can call the CFC Member Center at 800-424-2955 for rates and more information or to make an investment.

This article is neither an offer to sell nor a solicitation of an offer to buy the securities described herein. CFC has prepared offering memoranda for the securities to which this communication relates. Before you invest, you should read each offering memorandum for more information about CFC and the security. The memoranda are available by calling CFC at 800-424-2954. The MTN program is a registered security with the SEC, and its prospectus and prospectus supplement, along with additional information about CFC, are available on the SEC website. //

The Smart Communities program is still conducting research and providing marketing materials for smart providers, enabling independent service providers to share their strengths and capabilities with consumers, site-selection professionals and policymakers.

New federal funding for broadband builds on the work of NTCA's Smart Communities providers. The initiative also has been able to share best practices and strategies for elevating these applications in underserved spaces and also work closely with other industry sectors to build a bold and optimistic broadband-enabled future for all.

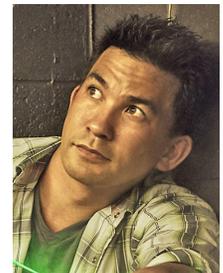
Visit the Smart Community website, <https://www.ntca.org/smart-rural-community>, for examples of how high-speed connections are changing communities. Watch personal stories from members at Twin Lakes Telephone Cooperative in Tennessee, Paul Bunyan Communications in Minnesota and Sacred Wind Communications in New Mexico. //



Don't Miss Other RTFC Activities, Sponsorships at RTIME

RTFC is pleased to be a chairman-level sponsor of the upcoming NTCA 2023 RTIME taking place February 19-22 in San Diego. RTFC Vice President of Economic Research John Suter will deliver an update on the state of the economy at the Closing General Session on Wednesday.

Following his talk, RTFC-sponsored speaker Jason Latimer will take the stage. Latimer is a world champion magician, curator of the iconic Fleet Science Center in California and co-host of the Science Channel series "SciLinks." He unites magic and science to inspire curiosity and demonstrate how a different perspective can create change.



Jason Latimer

According to Latimer, "The right question changes everything. Our next cure, our next technology, our next revolutionary change...will come from a question that has never been asked. Wonder changes the world."

If you plan to be in San Diego, please take some time to speak with RTFC staff about preparing for your telco's future. RTFC account managers will be available for private meetings to discuss financing options for upcoming projects.

Connect with our staff today to set up a meeting time and learn more about how we're ready to help with your financing needs. Call 800-346-7095 or email your account manager directly.

ECONOMIC ANALYSIS

Business Optimism Drops to Six-Month Low

The NFIB Small Business Optimism Index declined to a six-month low of 89.8 in December 2022. It marked the 12th consecutive month of the index remaining below the 49-year average of 98. Overall, business owners are expecting conditions over the next six months to deteriorate and real sales to decline.

Inflation was identified as the single most important business problem, with 32 percent of owners saying it was their top issue for operations. Unsurprisingly, 51 percent reported that job openings were difficult to fill. Although the figure is three percentage points below the previous month, it is still historically high. Overall, the business optimism report paints an environment that is under pressure from economic uncertainty driven by high inflation and persistent labor shortages.

Consumer Credit Increases, Led By Credit Card Debt

Consumer credit increased by \$27.96 billion month-over-month in November, according to the latest release by the Federal Reserve. Compared with a year ago, it increased at an annual rate of 7.1 percent. Nonrevolving credit increased modestly at 3.9 percent. This possibly reflects consumers dialing back on applications for new loans due to higher interest rates.

Revolving credit—such as credit card debt—increased at an alarming annual rate of 16.9 percent. This credit category has been rising quickly since early 2022, reflecting that consumers are turning to plastic to cover price increases. This is consistent with data on credit card debt, which shows the category is quickly approaching the pre-pandemic high. The slow growth in nonrevolving credit and high growth in revolving credit suggests expenditure patterns that are shifting from long-term goods, such as car purchases, to everyday goods and services that some consumers can no longer afford without the help of credit cards.

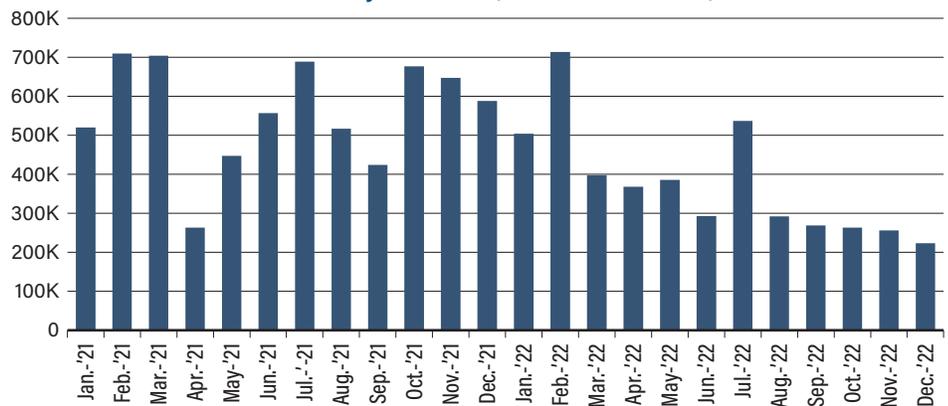
Labor Market Slows, But That's Okay

There is no winning number for the labor market. If it adds a lot of jobs, we worry the overheated demand will add inflationary pressure, pushing the Fed to increase rates. If it adds few jobs, we worry it's a sign the economy is slowing and possibly slipping into a recession. On the other hand, there is also no losing number. A high number is viewed as resilience while a low number is considered an opportunity for the Fed to slow rate hikes.

The verdict is in: The U.S. economy added 223,000 jobs in December, the smallest monthly gain in 2022. The figure, however, is consistent with pre-pandemic levels and in no way alarming. The unemployment rate edged down to 3.5 percent while the labor force participation rate ticked up by 0.1 percentage point.

While there's no winning or losing number, there are winning and losing industries. The job gains were led by leisure and hospitality, health care and construction. Employment in white collar industries saw little change. This suggests a potentially rare economic downturn that will hurt white collar workers more than those in blue collar industries.

Nonfarm Payroll Gains (Jan. 2021–Dec. 2022)



Source: Trading Economics

RECENT ECONOMIC RELEASES

INDICATOR	PRIOR PERIOD	CURRENT PERIOD (FORECAST)	CURRENT PERIOD (ACTUAL)
NFIB Business Optimism Index (Dec.)	91.9	85	89.8
Consumer Credit Change (Nov.)(MoM)	\$29.12B	\$25B	\$27.96B
Nonfarm Payrolls (Dec.)(MoM)	256K	200K	223K
Unemployment Rate (Dec.)	3.6%	3.7%	3.5%

Sources: National Federation of Independent Business; Federal Reserve; U.S. Bureau of Labor Statistics

KEY INTEREST RATES

	1/9/2023	9/8/2022	CHANGE
Fed Funds	4.50%	2.50%	2.00
1-mo. Libor	4.40%	2.76%	1.64
3-mo. Libor	4.78%	3.24%	1.54
2-yr. UST	4.20%	3.51%	0.69
5-yr. UST	3.66%	3.42%	0.24
10-yr. UST	3.53%	3.32%	0.21
30-yr. UST	3.66%	3.48%	0.18

Source: Bloomberg

RATE FORECAST—FUTURES MARKET

	Q1-23	Q2-23	Q3-23	Q4-23
Fed Funds	5.00%	5.05%	4.95%	4.70%
1-mo. Libor	4.92%	5.02%	4.86%	4.48%
3-mo. Libor	5.06%	5.12%	4.97%	4.60%
2-yr. UST	4.51%	4.41%	4.14%	3.81%
5-yr. UST	4.09%	4.02%	3.86%	3.62%
10-yr. UST	3.85%	3.80%	3.68%	3.51%
30-yr. UST	3.99%	3.99%	3.89%	3.76%

Source: INO.com

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INSIDE THE ECONOMY

2023 Looks To Be the Year of Continued Uncertainty

By Sam Kem, Senior Economic Research Analyst

We can all agree last year was a roller coaster ride. Coming out of the pandemic, we thought 2022 was the year of going back to normal. Then inflation started to look less and less transitory. Russia came out of retirement to invade Ukraine. China shut down its cities in the name of COVID prevention. The Federal Reserve woke up to the realization that inflation was out of control. The stock market crashed. Interest rates climbed faster than ever. By the end of it, we were ready for some stability. Unfortunately, those who hope for certainty this year will be in for some disappointment. Ladies and gentlemen, welcome to 2023—the year of continued uncertainty with a touch of intensity.

Although inflation is projected to decelerate this year, it will be higher than the Fed’s target

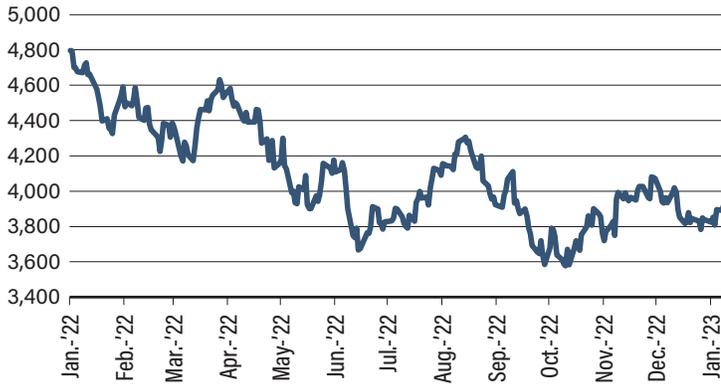
rate. Additional shocks—such as geopolitics—also may undermine the outlook. The key driver of the projected deceleration is goods prices as the supply chains continue to recover and consumers shift demand from goods to services. There is, however, a lot of uncertainty surrounding inflationary pressure, particularly in the services sector, which has been severely impacted by sustained labor shortages. Given the nature of the current inflation, the Fed will have to suppress worker demand in order to bring some balance to the labor market. If it does its job effectively, the unemployment rate will rise this year.

The Fed has front loaded its interest rate hikes. As there is a lag between the time a monetary policy is implemented and the time the economy fully feels its impact, look for the aggressive 2022 rate hikes to be felt in 2023.

This is when the pain of tight financial conditions will intensify and a recession could begin. As for the stock market, don’t pop champagne when there are rallies. It will continue to react wildly to every economic release as market uncertainty persists.

If, after the one-month free trial, you decide that you don’t like 2023, we sadly have to inform you that your subscription cannot be canceled and you have now committed to another year of uncertainty. //

S&P 500 Index Daily Close (Jan. 2022–Jan. 2023)



Source: S&P Dow Jones Indices LLC

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