



Capital Connections

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RURAL TELEPHONE FINANCE COOPERATIVE

RTFC Helps Gardonville Telephone Keep Pace with Needs of Rural Minnesotans

It's been 75 years since a group of rural residents in the Land of 10,000 Lakes banded together to improve their communications through formation of Gardonville Cooperative Telephone Association (GCT). Today, the business continues expanding to meet the needs of its members.

Local telephone service has evolved into a host of telecommunications options, and the coverage keeps growing. Headquartered in Brandon, Minnesota, GCT provides local telephone service, CATV, Internet, IPTC and access to long-distance telephone service through its local exchange networks.

"We're a cooperative that's still focused on solving problems rural Minnesota residents face," says CEO and General Manager Dave Wolf. "It's nice to have a partner like RTFC supply some of the resources we need to meet our sales demand."

The lending relationship between

GCT and RTFC is not new. The cooperative has had a revolving line of credit for working capital for years. More recently, it has tapped RTFC for a nonrevolving line of credit to finance pension prefunding and two term loans—one to refinance RUS debt and the other to fund capital expenditures.

"RTFC has a long history in working closely with utilities. They understand how to match capital to our business plan, both in timeliness and simplicity," Wolf adds. "The process was thorough, but not challenging. RTFC had the right level of experience to help us address each step in an efficient manner."

Like many rural utilities, GCT faces hurdles to bring the latest communications technology to its area. "It takes a lot of resources to modernize a telecom network," Wolf explains. "Prioritizing



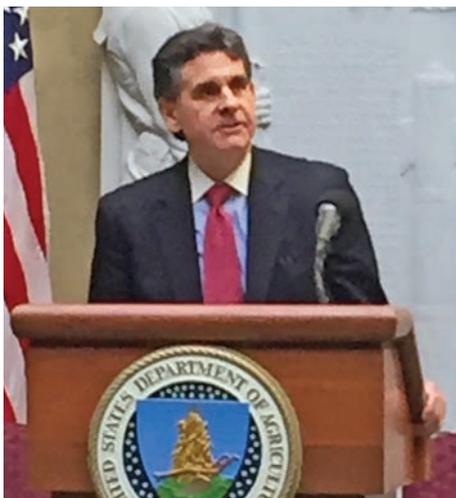
"It's nice to have a partner like RTFC supply some of the resources we need to meet our sales demand."

— Dave Wolf

members' needs, and arranging upgrades and improvements in the right order with our available resources tends to be a big challenge."

A portion of GCT's loan funds will be used to expand and upgrade the cooperative's fiber-to-the-premise network and implement wireless broadband projects. According to Wolf, "We're doing all we can to rapidly deploy network upgrades in various markets and meet subscriber demands, sometimes at the speed of sales." //

Petersen Participates in Effort to Expand Rural E-Connectivity



Sheldon C. Petersen

RTFC CEO Sheldon C. Petersen recently helped launch a six-month series of listening sessions on the challenges associated with expanding broadband access across rural America.

Petersen emphasized the need for collaborative efforts to enhance services. "Leveraging additional investment in rural broadband infrastructure will require a team effort," he said at the April 18 Washington, D.C., event.

"Local partnerships can be a wonderful way to leverage resources, expertise and efficiencies to ensure that rural communities can fully participate in today's 21st century economy."

Among the organizations participating in the initiative are NTCA—The Rural Broadband Association and the National Rural Electric Cooperative Association. In addition, U.S. Agriculture Secretary Sonny Perdue, Rural Utilities Service Administrator Ken Johnson and Federal Communications Commission (FCC) Chairman Ajit Pai offered support.

NTCA CEO Shirley Bloomfield commented she was excited to see the coordination between USDA, the FCC and her organization. She blogged about the event, saying Secretary Perdue "joined us to share his message reiterating how

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Global Economic Prospects Zipping Along—For Now

By Nick Grabowski, Economic Research Analyst



Nick Grabowski

Last year was a great one for the global economy. Most major economies grew in sync with one another—a rare occurrence, as there are usually problems in one country or another. As shown in the Institute for Supply Management Manufacturing Index (see chart), economies everywhere have been posting positive readings since late 2016. Sustained growth overseas has been great for American businesses. Multinational companies earn a significant amount of their revenue from foreign sales. The offshore demand also props up American exports.

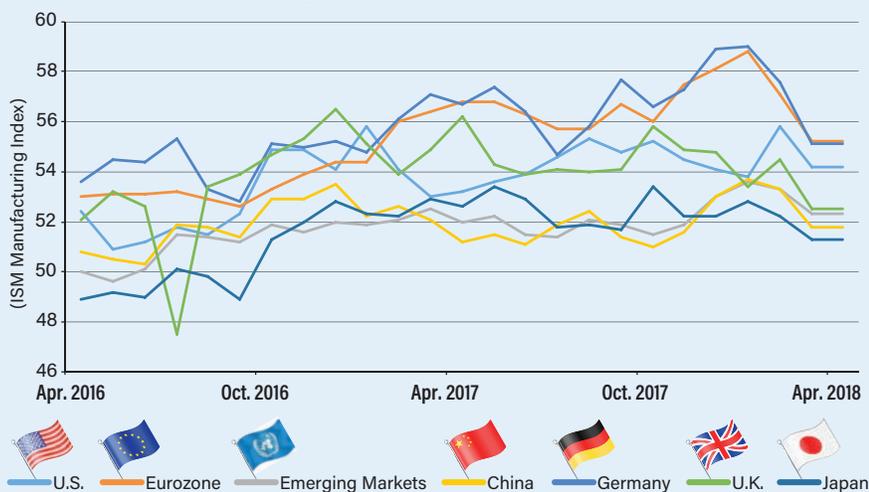
Overall, a lot of upside potential for economic expansion remains. Business and consumer sentiment in most nations seems strong. With expectations of higher profitability, firms seem poised to speed up investment and hiring plans. According to the International Monetary Fund, “The ongoing recovery in investment could foster a rebound in productivity, implying higher potential growth in the period ahead. This could lead to an acceleration in potential output that would expand the scope for demand to rise before it hits capacity constraints and generate inflation pressure.” In other words, today’s global investments could lead to even greater future economic improvements.

However, on the flip side of this good news, the economic risks are many. First, a stock market tumble, particularly in the United States, could lower consumer spending and become a contagion that spreads around the world—reducing consumer spending and likely leading to a contraction in global lending.

Next is the possibility of a worse-than-anticipated slowdown in the Chinese economy, which could zap global commodity prices, particularly metals. China currently gobbles up half the planet’s copper and iron-ore supply, so a slowdown by the Red Dragon would definitely stunt global growth prospects.

Finally, the time may be ripe for financial vulnerabilities to crop up. Global financial conditions have been easy the last decade. Central banks, however, are likely to start cutting back on accommodative monetary policies they adopted to battle the Great Recession, much like how the Federal Reserve has done in the United States. Any tightening, which will drive up interest rates, could curb economic activity.

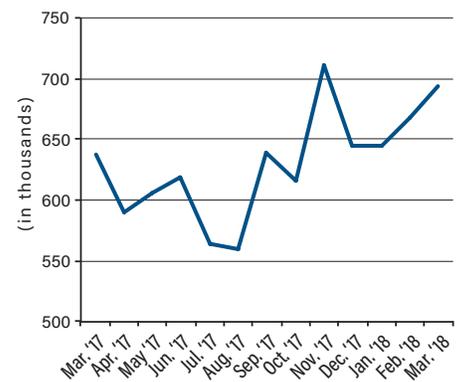
Major Economies Grow in Sync (since April 2016)



New-Home Sales Surprise

Purchases of newly constructed homes soared 4 percent in March, while prior-period estimates were revised higher, painting a rosier picture of the housing market than many economists had expected. A total 694,000 units were sold, which is 8.8 percent above the

New-Home Sales Over the Past Year



Source: U.S. Census Bureau

year-ago level and the best pace since November. Analysts speculate that first-quarter numbers may have been lower as buyers rushed to complete transactions last year before less beneficial mortgage tax deductions took effect in January.

As has been the case for much of the past few years, home sales remained regionally unbalanced. The West accounted for most of the monthly boost, jumping 28.3 percent, while the Northeast fell 54.8 percent. The seasonally adjusted median price for a new single-family home rolled in at \$336,110, up 2.1 percent from February and 4.8 percent better than March 2017. Currently, the housing inventory-to-sales ratio rests at 5.2 months.

Durable Goods Advance

New orders for durable goods swelled for the second month in a row in March, rising 2.6 percent, according to the U.S. Census Bureau. Additionally, February’s numbers were also revamped upward.

ECONOMIC ANALYSIS

The improvement was driven largely by the volatile nondefense aircraft sector, which jumped 44.5 percent as Boeing received orders for 197 aircraft. Excluding transportation, orders remained relatively unchanged for the month but came in 7.2 percent higher than a year earlier.

Orders for machinery fell 1.7 percent, the biggest drop since April 2016, although those for primary metals, computers and electronic products, fabricated metals and electrical equipment, appliances and components climbed.

Employment Keeps Growing While Wages Drag

Payrolls rebounded in April, with 164,000 jobs added, virtually all in the private sector. Construction rebounded with the arrival of spring; manufacturing and natural resources/mining made solid gains as well.

The unemployment rate fell to 3.9 percent, the lowest since 2000. The labor force participation rate also tumbled, to 62.8 percent, its second consecutive monthly decline.

Average hourly earnings, meanwhile, increased by 4 cents to a year-over-year pace of 2.6 percent. In comparison, last time the unemployment rate was this low, wages were expanding by 4 percent annually.

Q1 GDP Logs Lackluster 2.3 Percent

Gross domestic product (GDP) growth in the first quarter beat expectations, growing by 2.3 percent, although down from the 3 percent ballpark seen over the last half of 2017. The slowdown, though, is likely seasonal, as first-quarter GDP has tended to underwhelm in recent years.

Consumer spending—which accounts for roughly 70 percent of GDP—slid 1.1 percent, compared with a 4 percent surge in the last quarter. That meant its contribution to GDP shrank from 2.75 percent in Q4 2017 to 0.7 percent this time

around—one of the smallest bumps since 2013. Fixed investment was the largest contributor to growth, adding 1.2 percent, with business investment also strong.

Homebuilder Sentiment Cools, But Not By Much

The April National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, which shows builder confidence regarding the single-family home sector, slipped 1 point to 69, the lowest reading since last November and down from a December peak of 74. However, it's still 19 points above the 50 threshold, meaning a strong majority of homebuilders see now as a good time to start construction.

Home Builders Upbeat (NAHB Housing Market Index over past year)



Source: NAHB

The current sales component of the index slipped 2 points to 75 while sales expectations over the next six months dropped 1 point to 77. The buyer traffic segment held steady at 51.

Home prices also keep appreciating—more than 6 percent on a year-ago basis—due to a lack of available properties on the market.

10-Year Treasury Yield Nears 3 Percent

In late April, the yield on the 10-year Treasury note came close to breaking the 3 percent “glass ceiling” mark for the first time since January 2014. Yields advanced after President Trump announced tariffs on raw steel and aluminum in early March, which renewed inflation concerns. On top of this, oil has been hovering around \$70 per barrel while metal prices continue to firm.

The short end of the yield curve has also been rising. Three 25-basis-point interest rate hikes last year and one so far in 2018 by the Federal Reserve elevated both two-year and five-year Treasury yields, in particular. Higher yields jack up the cost of mortgages, student loans and car payments.

Retail Sales Rebound

Retail sales gained modestly in March, climbing 0.6 percent from the previous month—a welcome development after a very weak previous quarter. However, excluding gasoline and autos, sales were up only 0.2 percent. Even so, total sales are 4.5 percent higher on a year-ago basis, compared with 4.1 percent in February and 3.8 percent in January.

— Nick Grabowski

	KEY INTEREST RATES			RATE FORECAST—FUTURES MARKET			
	2/12/2018	5/8/2018	CHANGE	Q2-18	Q3-18	Q4-18	Q1-19
Fed Funds	1.50%	1.75%	0.25	1.84%	1.98%	2.20%	2.33%
1-mo. Libor	1.59%	1.93%	0.34	2.14%	2.27%	2.46%	2.59%
3-mo. Libor	1.83%	2.35%	0.52	2.38%	2.51%	2.66%	2.77%
2-yr. UST	2.10%	2.50%	0.40	2.90%	3.00%	3.14%	3.14%
5-yr. UST	2.58%	2.79%	0.21	3.09%	3.15%	3.25%	3.25%
10-yr. UST	2.89%	2.96%	0.07	3.66%	3.70%	3.68%	3.68%
30-yr. UST	3.17%	3.13%	-0.04	3.63%	3.66%	3.68%	3.68%

Source: Bloomberg

Source: INO.com

RTFC Urges Members to Sign Up for ACH Payments

RTFC recently e-mailed members information urging a switch from paper to electronic payments. Traditional checks bring risks such as payments lost in the mail, bank account info viewed by criminal eyes or delays in bank availability.

 **Yes, Switch Us to ACH Deposits!**

That's why RTFC is asking members to switch check payments to Automated Clearing House, or ACH, transactions.

ACH involves moving funds electronically from one bank account to another through unique routing and account numbers. The ACH Network transmits 25 billion electronic financial transactions annually, totaling \$43 trillion.

"ACH beats checks when it comes to security, speed and convenience," explains Lori Culp, RTFC

assistant controller—general accounting. "It protects banking information, makes funds available faster and saves staff time handling checks."

ACH provides the ability to send borrowers annual payments for the amortization of their RTFC Subordinated

Capital Certificates (SCCs) electronically.

Members can sign up for ACH deposits by logging into the RTFC Member Website and clicking on the Quick Link for "Switch Us to ACH Deposits!" and filling out the ACH authorization form.

"As a nonprofit, we're always working to keep expenses as low as possible and improve service for our members," Culp comments. "ACH does all those things." //

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Reed Joins FRS Board

RTFC Senior Vice President Robin Reed was seated as a new director on the Foundation for Rural Service (FRS) board during the recent Rural Telecom Industry Meeting & EXPO.

"It's an honor to serve on the FRS board," Reed says. "The foundation has many great programs that highlight the importance of rural America, and is constantly evolving in response to the changing dynamics in our industry."



Petersen Participates in Effort to ...

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critical broadband is to the future of our country" while Chairman Pai said "bridging the digital divide is one of his top priorities."

Rural utility executives also offered perspectives on broadband issues. One panel included Levoy Knowles of Tennessee Telecommunications Association. Knowles shared the struggles faced by the state's telcos, saying that finding creative ways to partner with others—including rural electric cooperatives—might be a way to serve more citizens and expand broadband infrastructure in the state.

The next listening session takes place in June in Minnesota. //

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