



Capital Connections

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RURAL TELEPHONE FINANCE COOPERATIVE

RTFC Finances Alabama's Pine Belt Communications Upgrade

James "Buddy" Nettles always believed the tenet that "in business, if you aren't going forward, you are going backward." Today, his son



John Nettles

John Nettles, president and CEO of Pine Belt Communications, is making sure rural Alabama residents can keep pace with their metro Dixie counterparts thanks to a recent loan

from RTFC to help the company provide 4G-LTE services.

Founded in the 1950s by John Nettles' father—a country doctor who started his own phone company when no one else would serve the area—Pine Belt

Communications is a hub for landline phone, wireless, high-speed Internet and cable television services. The business serves 5,600 consumers in six west-central Alabama counties.

Beyond serving a generally economically impoverished area of the South, the company has faced challenges that included access to usable spectrum, acquiring the latest mobile phone technology and tapping affordable investment capital. "Thankfully, there are focused entities such as RTFC that 'back up their talk' and are willing to partner with rural operators such as Pine Belt to help overcome that last hurdle," Nettles commented.

Pine Belt had worked with RTFC for

financing in the 1990s—once to venture into the mobile wireless carrier world and later to fund some landline projects and acquire additional wireless operating licenses. Since that time, however, the telco had turned to a local bank several years ago for the capital to rebuild their network and bring it up to then-current 3G standards.

That upgrade set the stage for Pine Belt's current efforts to add 4G-LTE services.

However, working with the local bank again proved tough. "They could not seem to grasp what it was we were doing operationally and could never get comfortable with the growth prospects laid out in our business projections.



Continued on Page 4

Need CAF-II Funding? Give Us a Call!

RTFC and its affiliate are ready to meet all your financing needs for Connect America Fund Phase II (CAF-II) projects. CAF-II provides funding to local telephone companies to support the cost of building new network infrastructure or performing network upgrades to provide voice and broadband service in underserved areas.

"Whether you need a term loan for construction or a letter of credit to support your CAF-II bid, RTFC and CFC can support your telco's broadband success through the entire cycle of the bidding and buildout process," said RTFC Senior Vice President Robin Reed.

Members who have successfully bid for CAF-II funds from the Federal Communications Commission (FCC) can request term loans from RTFC to finance

their broadband deployment. The loans are offered for terms up to nine years with a draw period of four years. Fixed and variable rates are available.

The National Rural Utilities Cooperative Finance Corporation, or CFC, is RTFC's in-house affiliate that can provide letters of credit to support bids on CAF-II funds. The FCC requires that all companies with successful bids provide a letter of credit from an approved financial institution covering 100 percent of the CAF-II funds. CFC is an approved issuer.

Once issued, letters of credit must be maintained or renewed throughout the years CAF-II funding is disbursed. The FCC allows winning bidders to reduce the amount of the letter of credit as the bidder successfully reaches pre-determined milestones in their build-out.

"Whether you need a term loan for construction or a letter of credit to support your CAF-II bid, RTFC and CFC can support your telco's broadband success through the entire cycle of the bidding and buildout process."



Robin Reed

Members involved in a CAF-II project or considering a bid can contact their RTFC account manager for more information or to start the credit process. //

Check Your Dollar—George Washington May Be Frowning

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



John Suter

Unlike the “Trump Bump” that has sent the stock market to new heights, the dollar has been mired in a “Trump Slump” so far in 2017. The White House has repeatedly talked about advantages of a weaker dollar, noting its strength in recent years has handicapped the ability of U.S. manufacturers to compete overseas.

The chart below shows recent movement in the Bloomberg U.S. Dollar Index, which tracks performance of a basket of 10 leading global currencies versus the greenback. Each currency and its weight gets determined annually based on the share of international trade and foreign exchange liquidity held. Right now, the Euro boasts the greatest weight, representing 32 percent of the index, followed by the Yen at 18 percent. Since last November, the U.S. dollar has fallen more than 10 percent and currency traders are betting that this trend will continue for the rest of the year.

Historically, currency values have been driven by differences in monetary policy and interest rates. However, today’s markets are different.

To stimulate sluggish economies, central banks around the world have been pushing interest rates to rock-bottom levels, resulting in narrow rate differentials. This has led currency trader mavens to focus more on political developments than ever before. In fact, there’s no better place for investors to express their views about a nation’s economic affairs than the \$5.1 trillion-a-day foreign exchange market. This is why the volatile behavior of the dollar can be confusing—its price movement tells you how we’re perceived relative to every other country.

The dollar has come under pressure due to events such as dovish comments from the Federal Reserve, lackluster U.S. economic data (retail sales and inflation figures) and political turmoil that has sidetracked President Trump’s pro-growth economic agenda. With shaky confidence in America’s economic future, currency buyers right now are betting against it.

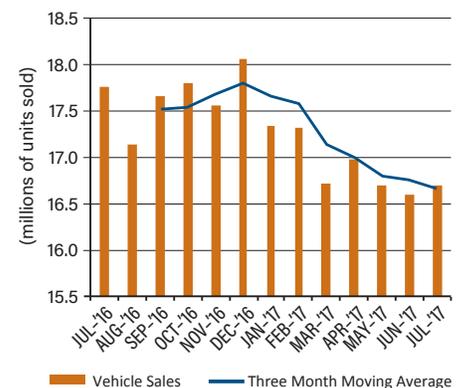
U.S. Dollar Index (November 2016 to August 2017)



New Vehicle Sales Sputtering a Bit

The record-setting pace of U.S. new vehicle sales topping year-before levels—zipping along for seven straight years—seems to have reached the end of the road in 2017. Cars and light-duty truck purchases in July came in at 16.7 million units on a seasonally adjusted annualized rate, a 7 percent drop from a year ago and the fifth consecutive month they have totaled fewer than 17 million units.

U.S. New Vehicle Sales (July 2016 to July 2017)



Source: WardAuto.com

Light-truck sales were 1.6 percent lower than their year-ago rate last month, marking the first time that has happened since 2011. The slide seems even more troubling as many dealerships ramped up incentives.

Personal Income Flat

In June, personal income came in unchanged while disposable income fell by 0.1 percent after being adjusted for inflation, a drag stemming from nonwage income weakness. For example, receipts on assets, which include interest and dividend income, declined by \$43.9 billion.

Wages and salaries, on the other hand, rose by \$30.8 billion. Improvement in this area should lift household budgets, a positive sign as consumer spending accounts for roughly 70 percent of U.S. economic output.

Employment Boost May Be a Tad Misleading

Nonfarm payrolls added 209,000 positions in July, a surprisingly strong report and far above forecasts. As a result, the unemployment rate ticked down a notch to 4.3 percent.

However, it seems that labor slack still exists. For example, the underemployment rate, or U-6—which covers all of the unemployed, plus all persons marginally attached to the labor force and those working part-time for economic reasons—held steady at 8.6 percent, indicating that much of the new hiring was for part-time or seasonal work. In addition, the long-term unemployed as a share of those without a job rests at 25.9 percent—a truly vigorous labor market should see that figure below 20 percent.

Wage growth remained stagnant at 2.5 percent; last July, it stood at 2.8 percent year-over-year. Increasing wages leads to more consumer spending, higher GDP numbers and healthier inflation. All of this indicates our nation has a ways to go before the economy overheats.

GDP Comes in Strong

Second-quarter gross domestic product growth came in at a robust 2.6 percent, right around consensus expectations, and a nice jump from the anemic 1.2 percent recorded in the first quarter of this year. As always, gains were driven by consumer spending, up 2.8 percent.

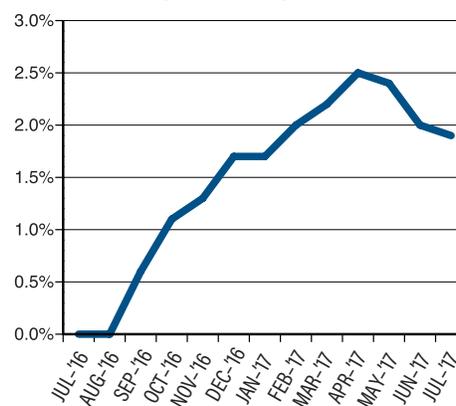
In a positive sign, businesses also opened their pocketbooks. Nonresidential fixed investment climbed 5.2 percent. Business investment has been lacking in the current recovery.

Producer Price Index Dip Raises Recession Red Flags

Producer prices reflect how much retailers pay for the goods they sell and tell a lot about business costs. Last month, the Producer Price Index (PPI) for

final demand (the last stage of production before items are shipped off to wholesalers and stores), excluding food and energy, fell 0.1 percent, to 1.9 percent—the first downturn since November 2015. That number, reflecting virtually nonexistent inflation, could give the Federal Reserve pause on whether or not to unwind its \$4.47 trillion balance sheet in coming months and raise short-term interest rates as planned in December.

Producer Price Index for Final Demand (July 2016 to July 2017)



Source: U.S. Bureau of Labor Statistics

Declines were fairly broad based and reversed mealy June upticks. However, the PPI could scoot forward if the dollar continues to depreciate in global currency markets, as a weaker dollar puts upward pressure on goods prices.

Service Sector Purchases Hit a Summer Slump

The Institute for Supply Management Nonmanufacturing Index, which measures conditions in the service sector, slipped to 53.9 in July—a significant fall from June's 57.4 and a sign of possible economic cooling.

The business activity index shrank from 60.8 in June to 55.9, coming in below 60 for the first time since March. New orders dropped from 60.5 to 55.1, the second time in the past three months that the component has tumbled in excess of 5 points. Inventory sentiment surged 5.5 points to 67.5, indicating respondents believe warehouses are too full.

RECENT ECONOMIC RELEASES

INDICATOR	PRIOR PERIOD	CURRENT PERIOD (FORECAST)	CURRENT PERIOD (ACTUAL)
WardsAuto.com Domestic Vehicle Sales (July)	16.59 million	16.8 million	16.69 million
Personal Income (June)	0.3%	0.4%	0.0%
Unemployment (July)	4.4%	4.3%	4.3%
Gross Domestic Product (Q2)	1.2%	2.7%	2.6%
Producer Price Index for Final Demand (July)	2.0%	2.2%	1.9%
Institute for Supply Management Nonmanufacturing Index (July)	57.4	56.9	53.9

Source: Bloomberg

KEY INTEREST RATES

	5/16/2017	8/15/2017	CHANGE
Fed Funds	1.00%	1.25%	0.25
1-mo. Libor	1.00%	1.23%	0.23
3-mo. Libor	1.18%	1.31%	0.13
2-yr. UST	1.30%	1.33%	0.03
5-yr. UST	1.87%	1.80%	-0.07
10-yr. UST	2.36%	2.25%	-0.11
30-yr. UST	3.02%	2.84%	-0.18

Source: Bloomberg

RATE FORECAST—FUTURES MARKET

	Q3-17	Q4-17	Q1-18	Q2-18
Fed Funds	1.12%	1.22%	1.29%	1.36%
1-mo. Libor	1.23%	1.35%	1.41%	1.46%
3-mo. Libor	1.34%	1.46%	1.53%	1.59%
2-yr. UST	1.82%	1.87%	1.87%	1.87%
5-yr. UST	2.14%	2.20%	2.19%	2.19%
10-yr. UST	2.97%	3.00%	2.99%	2.99%
30-yr. UST	3.20%	3.24%	3.22%	3.22%

Source: INO.com

Ellen Classen Retires

Ellen Classen, RTFC's vice president of business development, retired last month after 17 years with RTFC.

"Ellen's in-depth knowledge of the telecom industry, its constituents and issues has been invaluable to RTFC and our members," said RTFC Senior Vice President Robin Reed. "We appreciate her years of dedicated service and wish her well in retirement."



Ellen Classen

Classen also will depart from her position on the Foundation for Rural Service Board of Directors where she has served for four years. Prior to joining RTFC, Classen worked for the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) for seven years. //

RTFC Sponsors NTCA Keynoter Qualman in Philly

RTFC is pleased to sponsor NTCA Fall Conference speaker Erik Qualman, a best-selling author and digital expert. In his keynote "Privacy Is Dead. The New Rules of Reputation," this social media guru will explore how online information gathering can change a business's reputation with a single tweet.

Also during the Philadelphia conference, don't miss the chance to sit down with RTFC experts who will have a consulting room available to discuss any financing needs or questions. To schedule a time, contact RTFC Vice President of Portfolio Management Don Samonte at don.samonte@nrucfc.coop or 800-346-7095.

Qualman's books include "SocialNomics: How Social Media Transforms the Way We Live and Do Business," "Digital Leader: 5 Simple Keys to Success and Influence" and "What Happens in Vegas Stays on YouTube." A prolific global speaker, he is also a sitting professor at Harvard & MIT's edX labs. His talk will take place during the Opening General Session on September 25. //

RTFC. I made a call, and within 30 days I had a commitment letter, with a timely closing shortly thereafter. The loan experience couldn't have been any more efficient and straightforward."

As Pine Belt continues going forward with the latest technology, Nettles says the company remains true to its roots—focused on "providing the best service possible to all of our consumers at the best price possible" while also being willing to take risks to ensure their rural consumers stay on track with technology—and RTFC is there to help them succeed. //

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In short, they did not seem able to get their heads around the fact that the consumers in rural Alabama deserve and demand current-generation telecom services just the same as the businesses and residences of the state's metropolitan areas," Nettles said.

He continued: "After several months of discussions with them, I decided to explore other options and recalled my past experience with

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