RTFC

Capital Connections

RURAL TELEPHONE FINANCE COOPERATIVE

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INSIDE THIS ISSUE

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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

RTFC Ready to Finance Broadband Buildout Goals

If your telco has elected to participate in the Alternative Connect America Cost Model (A-CAM), RTFC can provide financing to help you meet the associated buildout requirements.

Don Samonte

"For telcos that went with A-CAM, the race is on to reach the required upload/download speeds, and RTFC can help you cross the finish line," says Vice President of Portfolio Management Don Samonte. "Whether you need an interest-only revolving bridge loan to fill the funding gap or want a secured term loan to finance capital expenditures, RTFC is actively lending for a variety of telecommunications projects."

RTFC provides secured loans for equipment installation, infrastructure projects and other corporate purchases. Loan amounts are determined on an individual basis, and both variable and fixed interest rates are offered.

"We can pair unsecured lines of credit with a capital expenditures loan to help members with all of their funding needs," Samonte adds. "And, of course, capex financing is also available to those ILECs remaining on legacy support."

RTFC members interested in financing can contact Samonte or their account manager at 800-346-7095. You can also hear more about RTFC financing at NTCA's Finance and Accounting Conference, August 20-24, at Caesar's Palace in Las Vegas. Samonte will participate in a session discussing "RTFC Perspectives on Telecom Lending."

RTFC Board Receives Update on NTCA Social Media Initiative

NTCA Communications Director Laura Withers offered RTFC directors an update on the association's Build Broadband With Us campaign at the board's most recent meeting May 23.

With a new administration, a new Congress and a new emphasis on improving America's infrastructure, broadband and social media are both in the spotlight. NTCA aims to help its members harness this momentum by offering resources for a new social media campaign touting the benefits of broadband for rural America.

Laura Withers

"It's no secret our president has been a huge infrastructure proponent and also a very active social media user," Withers told the board. "We've seen President Trump take to Twitter and have the power to change the national conversation in 140 characters. We're asking our members to follow that trend and use social media more in their advocacy efforts."

NTCA President and CEO Shirley Bloomfield launched the Build Broadband With Us initiative at the 2017 NTCA Annual Meeting in San Diego, and today more than 200 members have signed up to receive updates on social media messages they can spread to ensure their lawmakers and consumers are aware of the broadband successes and challenges in their communities.

"We'll send you content to share on social media and make sure your members of Congress see it in their press clips. A single message shared here and there has more of an impact than you think," Withers said, relaying details from a recent post that was shared on social media sites by 100 people and received more than 43,000 views in one week.

For more information on the campaign, including registration to receive social media content to share, visit www.buildbroadbandwithus.com.

Uncle Sam Kicks Around Whether to 'Borrow Long'

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

John Suter

Most economists believe Trump administration efforts to lower taxes and boost infrastructure spending will end up increasing the $20 trillion national debt (now at more than $61,000 per citizen or $165,000 per taxpayer), leading to heftier government borrowing to cover annual federal budget shortfalls. The Trump economic camp argues that significant tax cuts coupled with economic stimulus measures will grow the nation's gross domestic product (GDP) much faster than the 2 percent annually experienced during the past eight years—and over time that will generate sufficient revenue to balance out everything.

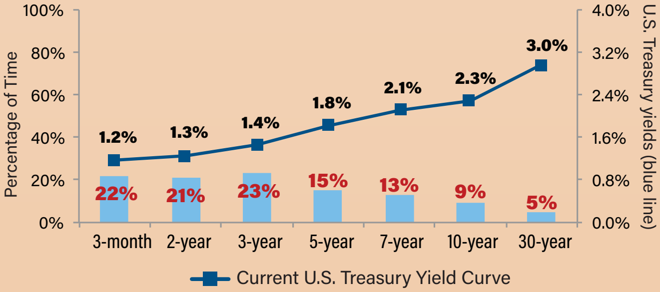
In fairness to President Trump, his administration inherits a national debt mess decades in the making and exacerbated by the Great Recession of 2007–2009. As a comparison, federal debt as a percentage of real GDP stood at 39 percent at the end of Reagan's presidency; it now tops a whopping 78 percent.

One major concern with financing government debt occurs when the economy accelerates and interest rates climb. The accompanying chart shows that only 5 percent of the time since 1980 has the 30-year Treasury yield fallen below the 3 percent rate we see today. With that in mind, Trump's Treasury team has begun looking at different ways to take advantage of low interest rates to fund budget deficits, such as issuing Treasury securities longer than 30 years.

According to JP Morgan analysts, a 50-year bond, for example, would likely yield about 0.20 percent more than 30-year notes. But most investment banks and Treasury dealers are sour on the idea—they believe investor demand for such an ultra-long issuance will not be robust enough to make auctions successful.

Interest savings alone on a 50-year bond could more than pay for some projects if the economy does begin to churn and inflation returns. Even better, securities of this length would match up nicely with the life span of many infrastructure projects.

Percentage of Time That Yields Have Been at or Below Current Rate Since 1980

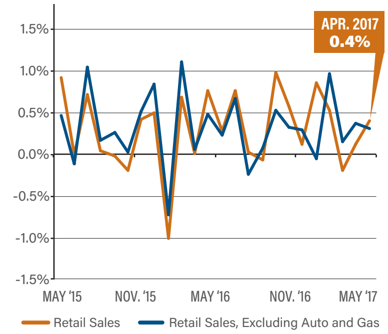


Retail Sales See Uptick

Retail sales increased 0.4 percent in April, climbing more than 1 percent at nonstore retailers (such as Amazon), electronics and appliance merchants but sinking for apparel, furniture and grocery stores. Overall, retail sales are up 4.5 percent from April 2016, with core sales 3.7 percent higher—a good sign for the economy since consumer spending accounts for 70 percent of the U.S. economy.

Given the ongoing lack of inflation and sluggish wage growth, the rosy retail sales report seems a bit surprising. However, lower prices have allowed consumers to buy more without boosting outlays.

Change in Retail Sales (month over month)



Source: U.S. Census Bureau

Productivity Stumbles Once Again

Nonfarm productivity slipped 0.6 percent at an annual rate in the first quarter of 2017—the most in a year—after a revised 1.8 percent gain during the previous three months. The results largely reflect the first-quarter slowdown in the economy, which grew at its weakest pace in three years.

Since 2011, productivity—the amount of output per hour of work—has increased only 0.6 percent annually, well under the average rate of 2.1 percent since 1947. When productivity lags, so does economic growth. As the labor market continues to tighten (which should drive up wages) companies will start investing in efficiency-boosting technology rather than relying on new hires.

Small Businesses Retain Hopeful Outlook

The National Federation of Independent Business Index of Small Business Optimism posted another historically high reading in April (at 104.5), but expectations that the economy will improve in the next six months plunged by eight points (to 38 percent) from March. Overall, 24 percent of respondents believe now is a good time to expand operations, 16 percent plan to hire workers (unchanged from the month before), while 33 percent report at least one job opening that they are having trouble filling.

Inflation Rebounds in April

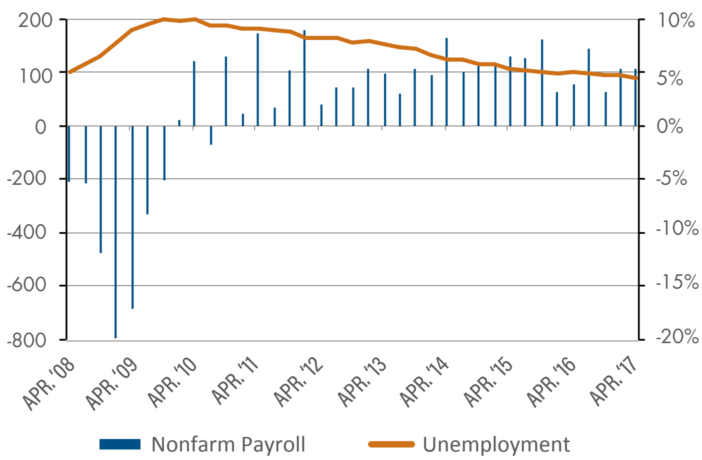
The March decline in consumer prices proved fleeting as April's headline Consumer Price Index came in at consensus estimates of a 0.2 percent bump. The energy segment rose 1.1 percent for the month after sliding 3.2 percent in March. Gasoline prices inched up 1.2 percent, taking back a small portion of March's 6.2 percent collapse, with food advancing 0.2 percent, largely concentrated in fruits and vegetables.

Core goods prices, meanwhile, plodded ahead at just 0.2 percent, suggesting core inflation will not reach the Fed's 2 percent inflation target (stronger inflation needs to go through core goods prices first). Despite a low unemployment rate, wage growth continues to lag, meaning inflationary pressures from higher pay may occur at a later date and to a lesser degree than in past economic cycles.

Unemployment Bottoms Out

The U.S. labor market rebounded strongly in April, adding 211,000 positions and pushing the unemployment rate down from 4.5 percent to 4.4 percent—the best showing since 2006. The jobs numbers will likely encourage the Federal Reserve to raise interest rates once more this summer as a way to keep the economy from overheating.

U.S. Employment Over the Past Decades



Source: U.S. Bureau of Labor Statistics

Consumer Credit Climbs at a Solid Pace

U.S. consumers stepped up borrowing in March, taking out more loans for cars and college, according to the Federal Reserve. Overall, consumer borrowing rose by $16.4 billion, or 5.2 percent, up from a $13.75 billion jump in February and the biggest uptick since November's $25.5 billion surge.

Nonrevolving balances, such as student and auto loans, vaulted by nearly $14.5 billion, or 6.2 percent—the most in five months—while credit cards inched up more modestly, by $2 billion, or 2.4 percent.

However, Fed efforts to hike interest rates might shrink this segment as the cost of borrowing rises. It's an area to watch closely since consumer spending accounts for about 70 percent of the nation's economic activity.

Labor Market Conditions Remain Upbeat

Even with the economy considered at full employment, the Federal Reserve Labor Market Conditions Index—based on 19 indicators—keeps improving steadily, jumping by 3.5 points in April, about the same as March. The unemployment rate fell to a new cyclical low of 4.4 percent while the U-6 underemployment rate showed a diminishing number of discouraged, marginally attached or involuntary part-time workers, slipping 0.3 percent. The one disappointment was a drop in the labor force participation rate to 62.9 percent, about equal to the six-month average.

With further labor market tightening, monthly job gains are expected to average around 150,000 by year's end before tumbling to 130,000 in 2018.

Housing Starts Still Struggling

Housing starts dipped in April, coming in 2.6 percent below revised March totals, though still 0.7 percent above year-ago figures. The decrease was led entirely by multifamily construction, which has been stifled by a significant project backlog.

Because of the weak start, residential construction may drag down the nation's second-quarter economic growth. Ironically, other housing yardsticks remain robust, suggesting issues with starts may be attributable to shortages of labor and ready-to-build lots. The outlook going forward seems positive, given steady hiring, healthier household finances and homebuilder confidence holding at its second-highest level since 2005.

RECENT ECONOMIC RELEASES

INDICATOR	PRIOR PERIOD	CURRENT PERIOD (FORECAST)	CURRENT PERIOD (ACTUAL)
Retail Sales (Apr.) (MoM)	0.1%	0.6%	0.4%
Productivity (Q1)	1.8%	-0.1%	-0.6%
National Federation of Independent Business Index of Small Business Optimism (Apr.)	104.7	104.0	104.5
Consumer Price Index (Apr.)	-0.3%	0.2%	0.2%
Change in Nonfarm Payrolls (Apr.)	79,000	190,000	211,000
Consumer Credit (Mar.)	$13.75 billion	$14.00 billion	$16.43 billion
Fed Labor Market Conditions Index (Apr.)	3.6	1.0	3.5
Housing Starts (Apr.) (seasonally adjusted annual rate)	1,203,000	1,260,000	1,172,000

Source: Bloomberg

KEY INTEREST RATES				RATE FORECAST—FUTURES MARKET			
	2/13/17	5/16/17	CHANGE	Q1-17	Q2-17	Q3-17	Q4-17
Fed Funds	0.75%	1.00%	0.25	1.25%	1.25%	1.25%	1.50%
1M Libor	0.77%	1.00%	0.23	1.18%	1.26%	1.33%	1.42%
3M Libor	1.04%	1.18%	0.14	1.24%	1.34%	1.42%	1.50%
2-yr UST	1.20%	1.30%	0.10	1.76%	1.83%	1.84%	1.84%
5-yr UST	1.91%	1.87%	-0.04	2.10%	2.21%	2.30%	2.30%
10-yr UST	2.44%	2.36%	-0.08	3.01%	3.04%	3.09%	3.10%
30-yr UST	3.03%	3.02%	-0.01	3.27%	3.32%	3.37%	3.37%

Source: Bloomberg

Source: INO.com

FRS Debuts New White Paper on Telemedicine in Rural Areas

NTCA's Foundation for Rural Service introduced a new white paper on "Anticipating Economic Returns of Rural Telehealth" at the conclusion of the spring Legislative and Policy conference in Washington, D.C.

Authored by NTCA Manager of Economic Research and Analysis Rick Schadelbauer, the document addresses the advantages and challenges of providing telemedicine to rural communities. The challenges included access to broadband, patient privacy, cost and licensing. The benefits, however, are many:

- Timely and critical access to far-away specialists,
- Improved quality of life from reduced travel;
- Fewer lost wages;
- Hospital costs savings; and
- Economic boosts to local economies for lab work and medicines.

FOUNDATION FOR RURAL SERVICE

NTCA President and CEO Shirley Bloomfield wrote in her blog: "I encourage folks to check out Rick's white paper that is also a product of our Smart Rural Community initiative. Access to healthcare close to home ensures that rural Americans can 'age in place' and makes rural America a more attractive place to raise a family."

The full 30-page paper can be found on the FRS website at www.frs.org. RTFC is pleased to be an FRS sponsor.

RTFC Offers Members Short- and Long-Term Investment Opportunities

While most members come to RTFC for their borrowing needs, the organization also offers investment options for members and affiliates who want to put their surplus cash to work by taking advantage of these investment products.

Offered through RTFC's affiliate, the National Rural Utilities Cooperative Finance Corporation (CFC), these opportunities are available for short- or long-term investing.

- **CFC Commercial Paper:** Earn interest on temporary cash surpluses of $5,000 or more by investing in CFC Commercial Paper, an investment option with maturities ranging from one day to 270 days.
- **CFC Daily Liquidity Fund:** A flexible investment account that allows telcos to invest and earn a return on short-term cash surpluses of at least $50,000 without committing to a specific maturity date.
- **CFC Medium-Term Notes:** Earn interest on general funds of $100,000 or more. These senior unsecured debt securities have maturities ranging from 10 to 24 months.
- **CFC Select Notes:** Take advantage of a higher interest rate than other CFC short-term investment products. Terms range from 30 to 270 days with a minimum investment of $100,000.

For more information about these opportunities or to obtain a prospectus, please call the Member Center at 800-424-2955. *This material does not represent a solicitation or offering to sell securities.*

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

Presorted
First-Class Mail
US Postage Paid
Permit #465
Dulles VA 20166