RTFC

Capital Connections

RURAL TELEPHONE FINANCE COOPERATIVE

FEBRUARY 15, 2018 | VOL. 30, NO. 1

RTFC Helps Finance Three-State Fiber Buildout for AcenTek

Communities in the Upper Midwest will soon have access to even better broadband speeds and coverage thanks to an ambitious $33.5 million fiber-to-the-home project partially financed by RTFC for AcenTek.

Headquartered in Houston, Minnesota, the company has evolved from a small carrier serving rural areas of southeast Minnesota to a thriving telecommunications provider offering business solutions and voice, video and data services to 33 communities across Minnesota, Iowa and Michigan.

Ready to take another technology leap, AcenTek turned to RTFC to finance their latest improvements. "Once the buildout is complete, we'll be able to deliver more advanced services and increased bandwidth for remote offices/ telecommuting workers of employers in and around our service area," explains CEO Todd Roesler. The Mayo Clinic, IBM and Gunderson Health are just a few of the area's largest employers.

Economic development is another goal of the fiber buildout. "We want to attract new businesses and also help our existing business customers better compete across the state and at a national, and even global, level," Roesler remarks.

Local students will also benefit from the upgraded network that will allow them to participate in an initiative that puts a Chromebook in the hands of each student.

While the time and terrain of actual construction will be a challenge for AcenTek, obtaining financing was not. "We were very satisfied with RTFC and their willingness to work with us. We needed access to the most affordable capital as well as the flexibility to work with our unique structure and the changing dynamics of the broadband industry," explains CFO Darren Moser.

"At each point in the process, Ian Flanders, our RTFC account manager, made it feel like he was not only working with us, but more like he was working for us."

AcenTek has almost 18,000 Internet consumers, an equal number of voice connections and about 8,000 video customers. Despite the growth, Roesler says the company still maintains its cooperative roots, always keeping in mind that consumer-owners are also friends and neighbors. //

Three Directors Re-elected; New Officers Named at 30th Annual Meeting

Three RTFC board directors were re-elected to three-year terms on January 31 during the 30th RTFC Annual Meeting, held at RTFC headquarters in Dulles, Virginia.

Returning to the board are Bruce Bohnsack of Germantown Telephone Company in New York (District 1); Kevin Larson of Consolidated Telecommunications Company in Minnesota (District 3); and Bill Hegmann of Southwest Arkansas Telephone Cooperative in Arkansas (District 5).

RTFC Board President David Dunning, a director of Wolverton Telephone Company in North Dakota, presided over the meeting and concluded his tenure as RTFC board president. "For fiscal year 2017, RTFC earned a positive margin of more than $484,000, while operating expenses were nearly $1.2 million lower than the prior fiscal year," he stated during the President's Report. "Also, in fiscal 2017, RTFC experienced an increase in loans outstanding of $13 million."

RTFC recently published its fiscal year 2017 financial results. A digital version of the annual report is available on the RTFC website in the Member Center (login required).

Following the annual meeting, the board appointed new officers for 2018:


Allen Hoopes


J. Frederick Johnson


Kevin Larson

- President: **Allen Hoopes,** Chairman and CEO, Silver Star Communications (WY);
- Vice President: **J. Frederick Johnson,** Executive Vice President and General Manager, Farmers Telecommunications Cooperative (AL); and
- Secretary-Treasurer: **Kevin Larson,** CEO and General Manager of Consolidated Telecommunications Company (MN). //

After February Stumble, Economy Faces Uncertain 2018

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

John Suter

February blew in, and it feels like the stock market plummeted faster than a downhill skier on a gold medal run. The Dow Jones Industrial Average (DJIA) had been on an amazing streak, rising 44 percent since President Trump's victory in November 2016, and climbing 26 percent between January 2017 and 2018.

The fun started when January's employment report was released Feb. 2. The data revealed that average hourly wages grew by 2.9 percent year-over-year—the fastest uptick since 2009. As a result, inflation fears arose and stocks promptly tumbled here and around the world.

Leading up to February, the S&P 500 had enjoyed 420 trading days without even the typical annual 5 percent correction. After Olympic-sized sell-offs on Feb. 2 and 5, the DJIA was down 8.5 percent from its January peak. The largest sell-off still belongs to "Black Monday" when the Dow fell 508 points on October 19, 1987, knocking off nearly 23 percent of the market.

Largest Daily Declines in the Dow Rank by Percentage

Rank Order	Date	Percentage Decline	Dow Jones Index Level	Point Drop
1	10/19/1987	-22.6%	1,738.74	(508.00)
2	10/28/1929	-12.8%	260.64	(38.33)
3	10/29/1929	-11.7%	230.07	(30.57)
4	11/6/1929	-9.9%	232.13	(25.55)
5	12/18/1899	-8.7%	58.27	(5.57)
6	8/12/1932	-8.4%	63.11	(5.79)
7	3/4/1907	-8.3%	88.00	(6.89)
8	10/26/1987	-8.0%	1,793.93	(156.83)
9	10/15/2008	-7.9%	8,577.91	(733.08)
10	7/21/1933	-7.8%	88.71	(7.55)
99	2/5/2018	-4.6%	24,345.75	(1,175.21)

Investors are worried inflation will start to rise faster than anticipated, prompting the Federal Reserve to implement four or five rate bumps in 2018 rather than the anticipated three. This could further stimulate an economy already growing strongly and experiencing historically low unemployment (4.1 percent). Meanwhile, almost 80 percent of S&P stocks are beating their financial targets. Sprinkle in some stimulative fiscal policy measures from the Trump administration, and gross domestic product could pass the established 3 percent threshold.

Prognosticators had speculated we're in an era of "secular stagnation"—permanently low economic growth, inflation and interest rates. Dispelling that theory, the Federal Reserve and the Bank of England are now pushing up interest rates while the European Central Bank is cutting bond purchases. Bond yields have climbed since autumn; the 10-year Treasury was 2.05 percent on Sept. 8 and reached 2.85 percent on Feb. 8—almost a 40 percent rise.

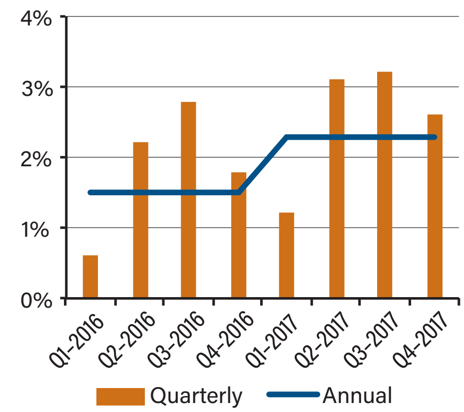
Higher bond yields challenge the markets two ways: raising the cost of borrowing for companies and consumers, which may slow economic growth, and undermining American equity valuations, which may be artificially high. Typically, if the 10-year Treasury hits a 3 percent yield, traders flee stocks in favor of the safe haven of bonds.

Up until Feb. 2, investors had settled in and gotten cozy with sluggish economic growth, but now the economy is ramping up with signs of higher inflation. Financial markets will have to adjust to the new normal and factor in the risks associated with a more volatile market. Will the economy now take the path of a snowboarder in a half-pipe, giving us an up for every down, or will 2018 hit the ice? Time will tell.

GDP Hits 2.6 Percent Pace in Fourth Quarter

Real gross domestic product (GDP) rose by 2.6 percent in the fourth quarter, following a 3.2 percent uptick in Q3. Consumer spending fueled the expansion, climbing 3.8 percent following a 2.2 percent pace in the prior period.

Robust GDP Growth in 2017



Source: Federal Reserve

Even more telling, business investment soared 6.8 percent in the quarter, following on the heels of a 4.7 percent Q3 surge—and in line with a typical mid-cycle pattern where companies more aggressively boost production capabilities.

Once more, though, trade proved to be a drag. While exports jumped 6.9 percent, imports shot up 13.9 percent.

Overall, the nation's economy grew by 2.3 percent in 2017, a welcome acceleration from the anemic 1.5 percent logged during the last year of the Obama administration.

Consumer Sentiment Dips, But No Cause for Worry

The University of Michigan Index of Consumer sentiment slipped in January, coming in at 94.4—a drop of 1.5 points from the month before and the lowest level since July. While down 4.7 percent compared with a year ago, the level still remains near cyclical peaks.

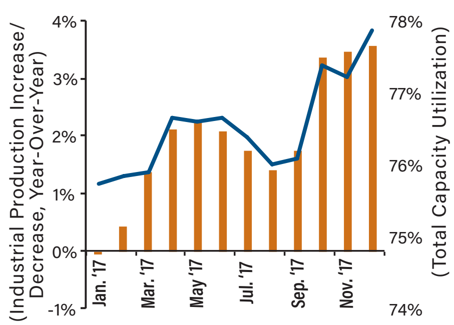
The decline was driven by consumers' assessment of current conditions, which fell from 113.8 to 109.2, led by worries over household income—a concern that stands in contrast to hard data showing wages moving higher.

Tax reform was spontaneously mentioned by 34 percent of all respondents, with 70 percent of those viewing the impact as positive and just 18 percent negative. In all, 56 percent forecast good times over the next 12 months, an increase of three points.

Industrial Production Ends Year on Hot Streak

Led by utilities and mining, industrial production rose by a better-than-expected 0.9 percent in December. Overall, output stood 3.6 percent higher compared with last year, and that bolstered capacity utilization, which shot up 0.7 percent to 77.9 percent—a positive sign for new investment spending.

Industrial Production and Capacity Utilization During 2017 (by month)



Source: Federal Reserve

For the month, non-auto manufacturing production decreased 0.1 percent but remained 2.5 percent above year-ago numbers. Auto sales picked up and rolled in 0.4 percent over last year. Thanks to the extreme cold affecting much of the United States, utilities surged 5.5 percent, reaching a 1.8 percent year-over-year gain. Mining improved 1.6 percent, rocketing to an 11.5 percent boost versus December 2016.

Is Inflation Emerging from Its Burrow?

Like a prognosticating groundhog peering out to see its shadow, inflation lifted its slumbering head a bit in December. Core Consumer Price Index (CPI)—which captures average prices for a common basket of goods and services, excluding volatile food and energy—ticked up 0.1 percent, to 1.8 percent year-over-year. That's about where the measure stubbornly stood for much of the second half of the year. Core CPI had been trending above the Federal Reserve's 2 percent inflation target for 15 months prior to last April when it hit a wall.

While December's rise may only be temporary, the report pushed Treasury yields above 2 percent for the first time since 2008—a major milestone.

Building Permits Last Year Hit Decade Best

Housing starts tumbled by 8.2 percent in December to a seasonally adjusted annual rate of 1.192 million units, led by a steep decline in single-family home construction. That was the sharpest drop since November 2016, although some of the loss may be seasonal as homebuilding typically trails off during late fall and winter. In addition, the sector had just recorded two months of solid advances, including a seasonally adjusted annual rate of 1.299 million units started in November.

More telling, building permits last year climbed 4.7 percent, to 1.263 million units, the highest total since 2007. In addition, a homebuilder's confidence report found optimism at its second-loftiest mark since 2005.

New-Home Sales Drop

New-home sales tumbled 9.3 percent in December, to 625,000 units on an annualized, seasonally adjusted basis, although they rolled in 14.1 percent above the total from December 2016. The median price of a new home stood at $335,400, up 2.6 percent from last year.

Inventories Build Steam

Business inventories notched a 0.4 percent bump in November and came to rest 3.2 percent higher on a year-ago basis. Wholesalers logged the biggest increase, at 0.8 percent; manufacturers 0.4 percent; and retailers 0.1 percent. In addition, October's below-water inventory numbers were revised upward from a loss to show no gain.

Business sales, meanwhile, accelerated 1.2 percent, lowering the inventory-to-sales ratio (months of sales required to clear shelves) from 1.34 to 1.33—tops since November 2014. Strong business sales generally lead to heftier business investment and consumer spending, and corporate tax cuts should help in this area.

— Nick Grabowski

	KEY INTEREST RATES			RATE FORECAST—FUTURES MARKET			
	11/14/2017	2/12/2018	CHANGE	Q1-18	Q2-18	Q3-18	Q4-18
Fed Funds	1.25%	1.50%	0.25	1.49%	1.73%	1.82%	1.97%
1-mo. Libor	1.26%	1.59%	0.33	1.80%	2.00%	2.08 %	2.20%
3-mo. Libor	1.42%	1.83%	0.41	1.99%	2.15%	2.26%	2.37%
2-yr. UST	1.68%	2.10%	0.42	2.56%	2.66%	2.62%	2.62%
5-yr. UST	2.07%	2.58%	0.51	2.85%	2.91%	2.86%	2.86%
10-yr. UST	2.39%	2.89%	0.50	3.52%	3.57%	3.59%	3.59%
30-yr. UST	2.85%	3.17%	0.32	3.58%	3.63%	3.72%	3.72%

Source: Bloomberg

Source: INO.com

RTFC Marks 30 Years of Serving Rural Telcos

RTFC recently marked 30 years of service and billions of dollars financed to the rural telecommunications industry. Incorporated in October 1987 amidst an unsettled political and operating environment for rural telephone providers, RTFC continues to fulfill its mission to provide financing to the rural telecommunications industry.

Beginning in the early 1980s, the future availability of government financing for the nation's rural independent commercial and cooperative telephone companies was in a state of flux. For nearly a decade, various budget proposals attempted to eliminate or severely cut back funding for loan programs offered to telephone companies through the Rural Electrification Administration, now the Rural Utilities Service; the now-defunct Rural Telephone Bank; and the Federal Financing Bank.

"Based on the constraints of the Rural Electrification Act, government funding was not available to meet the financing needs of rural local exchange carriers that were diversifying and creating multi-tiered organizations," remarks RTFC Senior Vice President Robin Reed.

Working together, telecom industry leaders and the National Rural Utilities Cooperative Finance Corporation (CFC)—the premier supplemental lender to the nation's electric cooperatives—created RTFC as the industry's first source of private financing established solely for the rural telecommunications industry.

Serving our members since 1987
Rural Telephone Finance Cooperative

Once in operation, RTFC began to experience steady membership growth and geared up to offer a variety of loan products.

"RTFC was very active in financing the construction of the cellular telephone networks that serve rural areas today," Reed recalls. "We funded more than $1 billion in acquisition and plant upgrade loans that helped our members grow and ultimately deliver higher quality telecommunications services to those acquired communities."

Today, RTFC continues to offer lending for acquisitions, capital expenditures, refinancing and working capital—as well as bridge loans. //

RTFC Sponsors Chainsaw-Wielding Closing Speakers at RTIME

RTFC is pleased to sponsor keynoters Jon Wee and Owen Morse, co-founders of The Passing Zone, during the closing general session of the 2018 NTCA-The Rural Broadband Association Rural Telecom Industry Meeting & Expo taking place Feb. 25-28 in Austin, Texas.

The duo will use their mad skills at juggling to not only entertain but also demonstrate how the principles of innovation, collaboration and execution can lead to success.

RTFC financial expert John Suter, vice president of capital markets research and analysis, will also take the stage at the closing general session to provide an update on the U.S. economy and highlight key developments that affect rural telecommunications providers.

RTFC is proud to be a Chairman Level sponsor of NTCA. //

FEBRUARY 15, 2018

Capital Connections

Capital Connections is published quarterly by RTFC.

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