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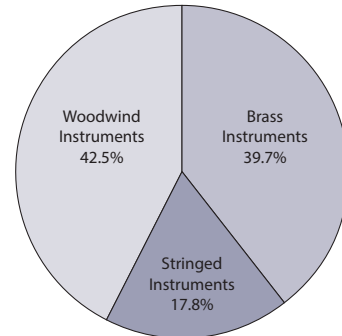
The School Music Market

Includes woodwind instruments, brass instruments and stringed instruments.

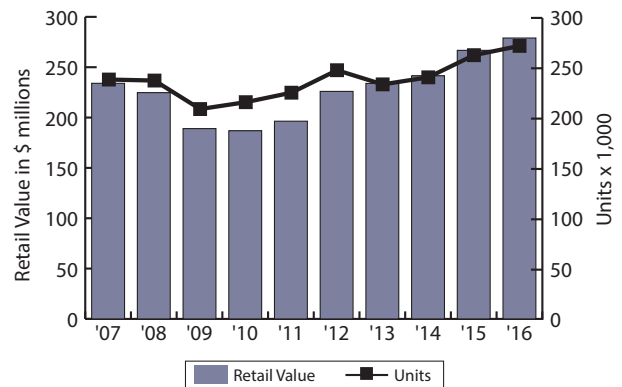
The retail value of woodwinds, brasswinds and stringed instruments inched up 1.6% to \$702 million, driven by a combination of modest unit and price increases. Industry analysts have spent decades trying to find connections between economic data such as unemployment, GDP growth, housing starts, consumer confidence and the sales of music products. The search for “correlations” has been largely futile, with one significant exception. Unit sales of woodwinds, brasswinds and strings have closely tracked total K–12 enrollment levels for at least the past five decades. Once again, the 2016 uptick of .09% in unit volumes was equal to the rise in total school enrollment.

The durability of school music programs is a testament to their value, both in real and perceived terms: They enjoy strong parental support, even from those whose children are not enrolled. Given the local control of most schools, the success of music education programs can vary dramatically from region to region. In aggregate, however, they remain strong.

Retail Value Market Share

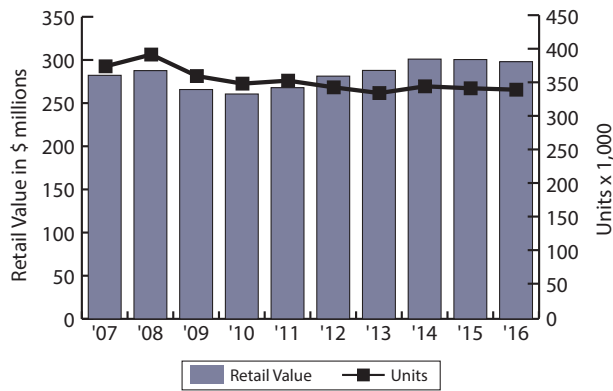


Brass Instruments



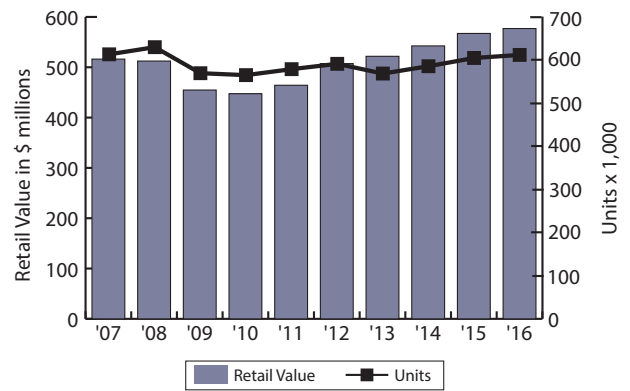
	Retail	Unit	Average Price
2016 Summary	4.59%	3.50%	1.06%
10-Year Trend	19.22%	13.99%	4.59%

Woodwind Instruments



	Retail	Unit	Average Price
2016 Summary	-0.83%	-0.61%	-0.22%
10-Year Trend	5.59%	-9.31%	16.43%

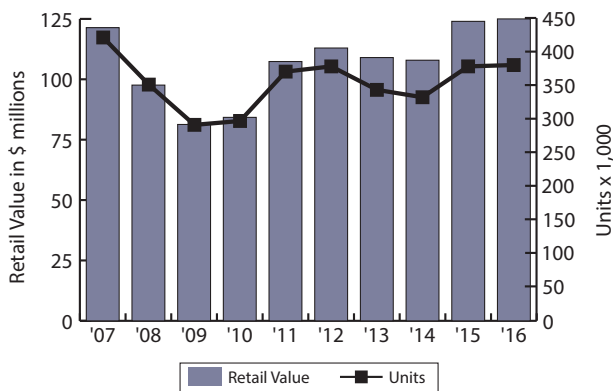
Total Wind Instruments



	Retail	Unit	Average Price
2016 Summary	1.72%	1.18%	0.54%
10-Year Trend	11.77%	-0.23%	12.03%

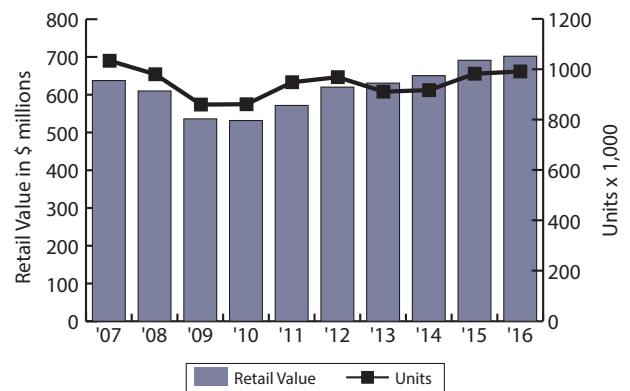
Total Wind Instruments category includes brass and woodwind instruments.

Stringed Instruments



	Retail	Unit	Average Price
2016 Summary	0.82%	0.53%	0.29%
10-Year Trend	2.98%	-9.75%	14.11%

Total School Music



	Retail	Unit	Average Price
2016 Summary	1.56%	0.93%	0.62%
10-Year Trend	10.10%	-4.11%	14.81%

ARGENTINA

Since December 10, 2015, a new alliance of parties, called CAMBIEMOS, has been in control of the government administration in Argentina. The president is Ing. Mauricio Macri heads the alliance formed by PRO (his own party, which successfully administrated the city of Buenos Aires during the previous eight years); UCR, the centennial radical party (responsible for the return to democracy after decades of military governments); and CC, the party headed by Mrs. "Lilita" Carrio, a lawyer and well-respected defender of the good practices and honest administration.

It was the end of 12 years of populism that left the country in a very negatively compromised economic situation, with very high inflation, millions under the poverty line, more millions depending on survival plans from the government, and most regional businesses broken or close to bankruptcy. It included a period where buying foreign currency was very difficult or even illegal. Imports were very restricted and exports were at a very low level due to an artificially strong exchange rate of our peso against the main currencies.

The new government released the exchange rate assuming a lower devaluation than expected, something that was welcome as a positive sign, and slowly started to rebuild the basics of the economy. This was a long and difficult process.

Among the first effects was a strong rise in prices, which affected purchasing power. Sales dropped drastically in all areas, and the economy fell into a recession that persists as of the writing of this report, but the situation is improving. It seems like we touched bottom and now are starting a recovery period.

Many people lost their jobs during the first six months of the new administration, and obviously people were not happy, but most kept their support of the government because they understood that the situation was difficult.

The year 2016 was entirely a reorganizing year. All federal construction projects were stopped in order to be revised and to cut corruption (the cost of these projects went down drastically), and by early 2017 a lot of public work resumed, generating a big impact on the economy that will improve the situation of most sectors connected to the construction industry.

Import Restrictions

The new government did not want to open the economy to importation until the recession is over and the economy has come back to create new jobs. They want to avoid more job losses, particularly from local manufacturers.

So, the situation of importers did not improve very much, but the relationship with the government is much more professional and open. Most products require a new SIMI approval form (<http://www.afip.gob.ar/simi/>), which is released automatically, but also many products remain under LNA (Non-automatic Import Licenses), which may delay up to 60 days or more to obtain.

Minimum FOB prices are requested for classic guitars, strings, drum sets and others; otherwise the LNA certificate may never see the sunlight.

Also, parallel restrictions are in place that request safety approval for all electric devices, a very serious and expensive restriction that must be renewed every 180 days. This procedure requires manufacturers to send products to labs to test them for safety, many times destroying the product in the process, which increases even more the cost to get these certificates live and updated. This operates as a very severe barrier to importing new products and even with small quantities, it does not make this process affordable.

So the situation is not easy. Many financial barriers were removed, but others were not or even became worse.

Inflation

The inflation rate is very high (40% in 2016 and projecting 20–25% in 2017) and as the exchange rate of the peso has been almost fixed for more than a year, local production is suffering from the rise in costs and lack of competitiveness. This in turn affects jobs and salaries, so demand is slow.

Demand

Demand for musical products and equipment decreased by 40% average, despite the very low prices in local currency due to the again-strong peso. Some brands have been changing hands, looking for better distributors or for direct distribution. It is a challenging time.

Mid-Term Elections

In October, the nation will go through mid-term elections where half of the Congress must be renewed. Many big decisions that may impact the economy will be delayed until after the elections.

Positive Future

Most people stay positive about the future and understand that all the serious and painful decisions being made today are necessary to rebuild the economy and the nation for a bright future.

Commentary by Alfredo Campanelli, Founder of Import Music Argentina

DOING BUSINESS IN ARGENTINA

Market Overview

- The United States exported US\$10.8 billion in goods to Argentina in 2014 and purchased US\$4.4 billion. In services, the United States exported US\$7.1 billion and Argentina sold US\$1.9 billion. The United States supplies raw materials, intermediate goods and capital goods to feed Argentina's industrial sector, while Argentina exports food, wine and agricultural products as well as intermediate goods.

- About 90% of U.S. exports to Argentina are used in local industry and agriculture such as computers, industrial and agricultural chemicals, agricultural and transportation equipment, machine tools, parts for oil field rigs, and refined fuel oil. Argentine exports include goods such as wine, fruit juices, crude oil and intermediate goods like seamless pipe, tubes and other iron-based products.
- More than 500 U.S.-based companies operate in Argentina, employing 360,000 Argentines directly and supporting millions more indirectly. The stock of U.S. investment in Argentina reached US\$15.2 billion in 2013 and is concentrated in energy, manufacturing, information technology and finance.
- U.S. firms operating in Argentina impact the Argentine economy and society positively and are widely respected for their corporate governance, the quality of the work environment they provide to their Argentine employees, their transparency and their work in corporate social responsibility.

Top Five Reasons for Doing Business in Argentina

- Argentina is a resource-rich country with huge potential.
- Its population is highly literate and well-educated. There are strong cohorts of professionals in medicine, business, law, accounting, engineering, architecture, etc.
- The country is digitally capable, with high Internet and smartphone penetration.
- Income distribution is more equal than in most Latin American countries, with a broad and deep middle class that enables more consumer buying power.
- Argentina's infrastructure requires major updating and renewal, providing significant opportunity for exporters of equipment and services for roads, ports, railroads, telecommunications, water and sanitation, and electric power, among others.

Market Challenges

- Slowing economic growth, import and foreign exchange restrictions, and sharply lower prices for Argentina's principal exports (soy products and corn) make the outlook for the Argentine economy uncertain in 2015, with growth estimates of slightly negative to 3%.
- Inflation estimated at 30% or higher in 2014 and 20–24% in 2015 by private economists has raised costs and resulted in a more challenging business environment, especially as the real effective exchange rate has significantly appreciated since a January 2014 devaluation.
- Limits on profit, royalty and licensing remittances have discouraged new investment in Argentina. Lack of transparency and a public comment period for new regulations adds to business uncertainty, as do questions about government statistics.

- All importers must request approval from the Argentine Tax and Customs Authority (AFIP) prior to making each purchase for import and, separately, to purchase the foreign currency to pay for it. The GOA's policy of tying approvals to changes in the trade balance and foreign exchange levels has added to uncertainty. The United States, EU and Japan won a WTO trade complaint against Argentina; final resolution is pending.

Argentina's continuing dispute with investors who did not accept the 2005 and 2010 restructurings of its foreign obligations has led to Argentina being currently ineligible for coverage under U.S. programs (Exim Bank, OPIC and the Trade Development Agency) designed to assist American companies.

Market Opportunities

- Argentina is an attractive market for American exporters, with a large (42 million) and educated population, abundant natural resources such as in agriculture, mining and unconventional hydrocarbons, and important infrastructure needs.
- As Argentina addresses its current economic challenges, opportunities will increase. This is an excellent time to begin exploring the market and establishing relationships.

Market-Entry Strategies

- Marketing U.S. products and services in Argentina requires a high level of research, preparation and involvement.
- Companies intending to export to Argentina need to ensure that their customers fulfill all import requirements before they ship any product and must be careful to follow all regulations precisely.
- U.S. companies exporting to Argentina typically market their products and services through Argentine agents, representatives and distributors.
- Close personal relationships are important.
- U.S. companies must consider Argentina's unique economic, demographic and cultural characteristics that distinguish it from other Latin American countries.
- It is increasingly difficult to establish a "typical customer" due to new consumption habits and the dynamics of income distribution and demography.
- Promotion is an important marketing component. Companies are encouraged to visit or exhibit at local and regional trade shows, and to visit trade shows in the United States attended by Argentine buyers.
- Protect your intellectual property and engage qualified local professionals and lawyers in contract negotiations.

“Doing Business in Argentina” article is provided by the U.S. Commercial Service, the trade promotion arm of the U.S. Department of Commerce’s International Trade Administration. For more information on doing business in Argentina, you may visit their website at www.export.gov/Argentina.

The following charts are based on import and export data obtained from the website of the International Trade Centre (ITC)

ARGENTINA SNAPSHOT

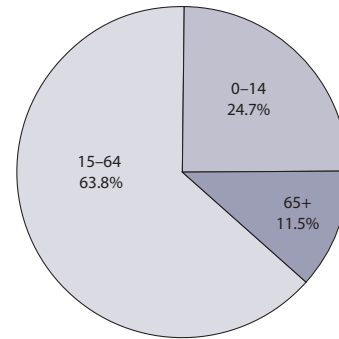
Demographics

Population in millions 43.9

Age	Male	Female
0-14	5.59	5.26
15-64	14.00	14.00
65 & Over	2.10	2.93

Median Age 31.5
Population Growth 0.93%

Demographics

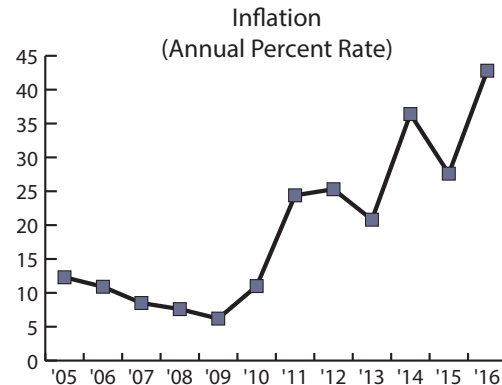
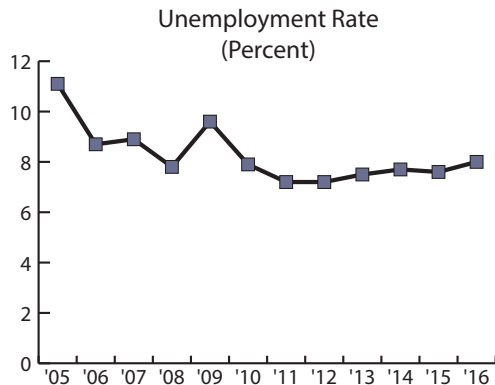
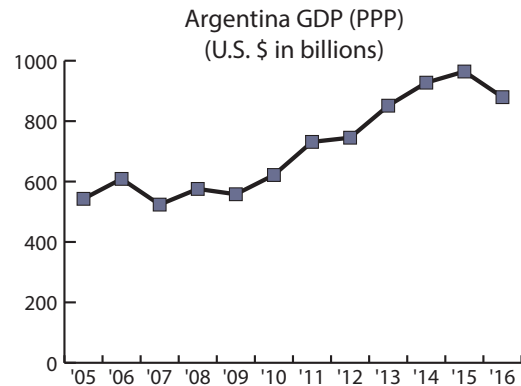
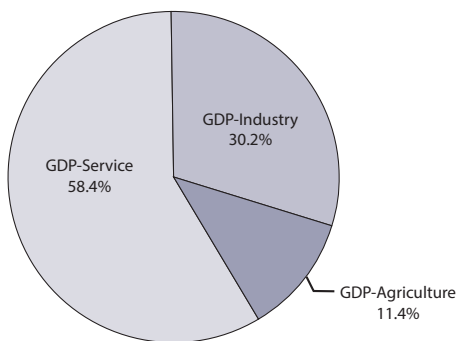


Economy

GDP (PPP)	\$879.4 billion
GDP Per Capita	\$20,200
GDP-Real Growth Rate	-1.80%
Unemployment Rate	8.00%
Inflation	42.80%

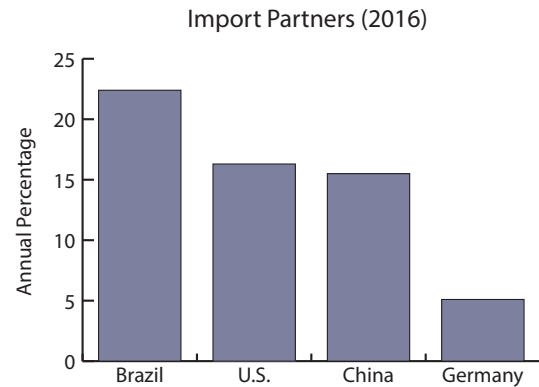
Data Source: *Demographics, Economy and Trade* from CIA World Factbook, *Music Industry* from The Music Trades.
GDP (PPP): Gross Domestic Product based on purchasing-power-parity (PPP) valuation of country GDP in U.S. dollars.

Economy



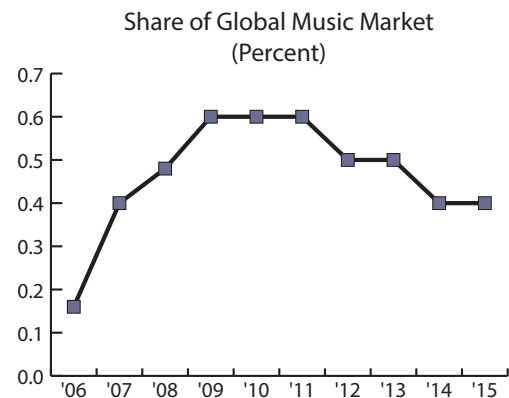
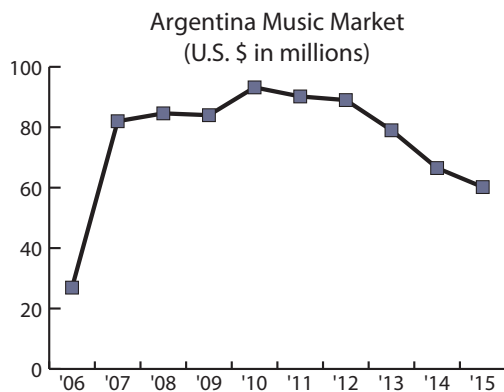
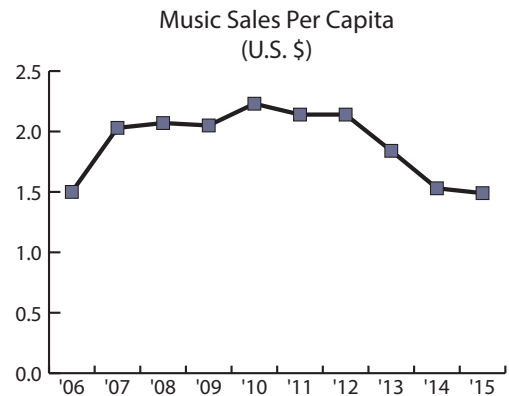
Trade

Total Export	\$58.4 billion	Export as % of GDP	6.64%
Total Import	\$57.2 billion	Import as % of GDP	6.51%

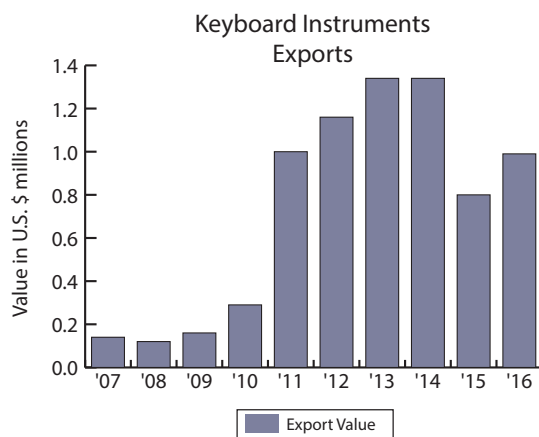
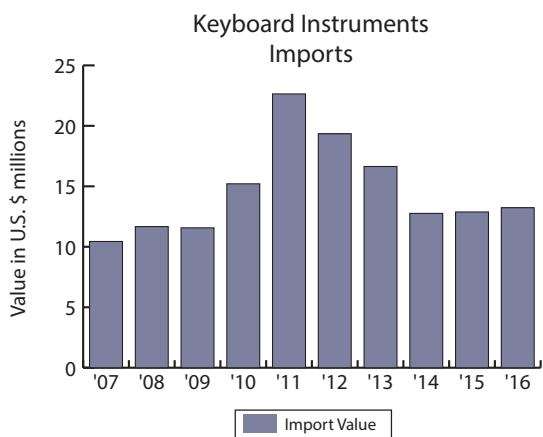
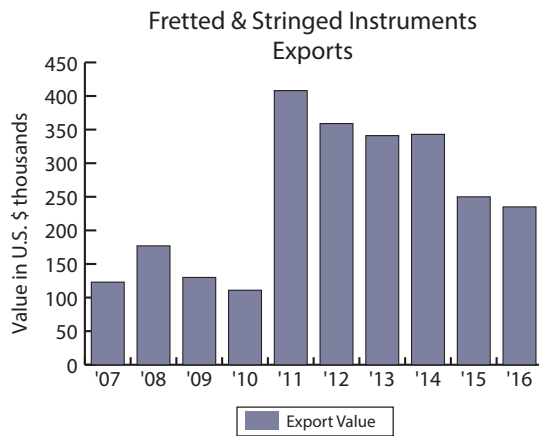
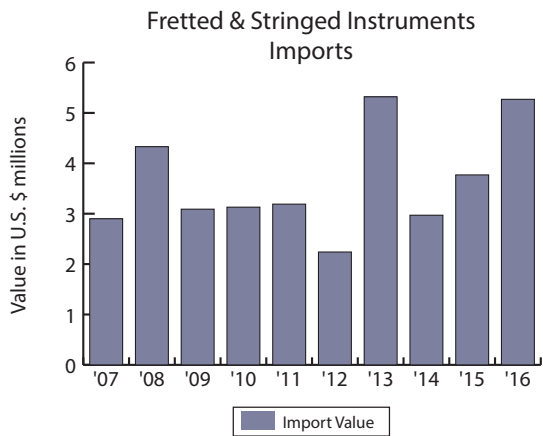
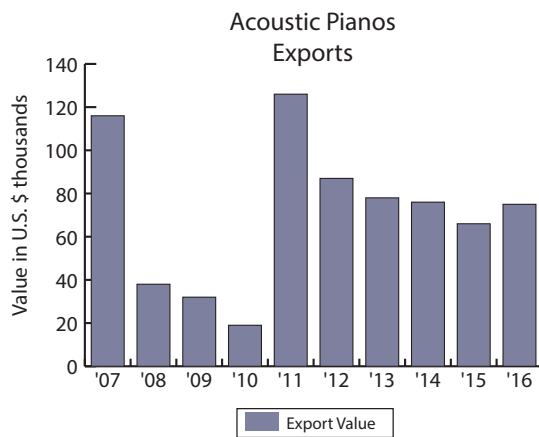
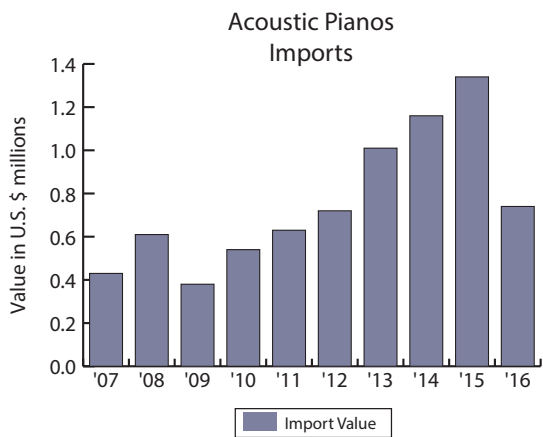


Music Industry

Music Market	\$60.2 million
Sales Per Capita	\$1.49
Global Share	0.40%



Argentina Imports and Exports



Argentina Imports and Exports

