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CONTENTS

Message from the Chair and President/CEO	2
Methodology/Understanding the U.S. Data	4
U.S. Snapshot	5
U.S. Industry Revenue at a Glance	7
Music Industry Analysis	9

U.S. RETAIL SALES

Fretted Products and Effects Market	10
Piano and Organ Market	14
School Music Market	17
Pro Audio Market	19
Percussion Market	22
DJ Market	25
Recording and Computer Music Market	27
Electronic Music Market	31
Print Music Market	33
Portable Keyboard Market	34
Karaoke Market	35
General Accessory Market	36

U.S. INDUSTRY SUMMARY & IMPORTS AND EXPORTS

Industry Summary	38
Import and Export Data	45

INTERNATIONAL DATA

Understanding the International Data	53
Argentina	54
Australia	63
Austria	73
Belgium	81
Brazil	87
Canada	96
China	114
Czech Republic	126
Finland	133
France	139
Germany	147
Hungary	160
India	172
Italy	180
Japan	191
Mexico	207
Netherlands	216
Norway	223
Philippines	229
Russia	239
South Korea	248
Spain	254
Sweden	265
Switzerland	272
Taiwan Market	278
Thailand	286
United Kingdom	294

NAMM EXECUTIVE COMMITTEE & BOARD OF DIRECTORS	304
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ACKNOWLEDGMENTS	305
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School Music Market

Includes woodwind instruments, brass instruments and stringed instruments

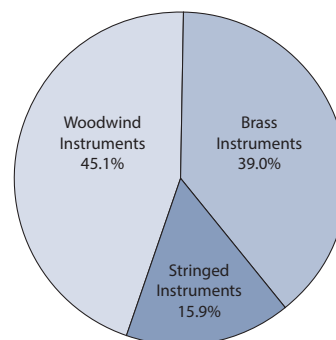
The retail value of brasswinds, woodwinds and orchestral strings increased 3.1% to \$787.2 million in 2019, driven by an increase in the average selling price of instruments. Unit volumes for the year declined 3.5% to a combined 947,000 instruments shipped.

The woodwind category saw unit shipments advance 2.4% in 2019, driven primarily by an increase in clarinet sales. Shipments of flutes and saxophones remained unchanged during the year. Modest price increases in average unit selling prices pushed the retail value of woodwinds up 6.3% to \$354.7 million. A 3.0% decline in brasswind shipments to 258,000 units was offset by an increase in average unit selling price, which drove retail value to \$307 million, a 3.1% advance.

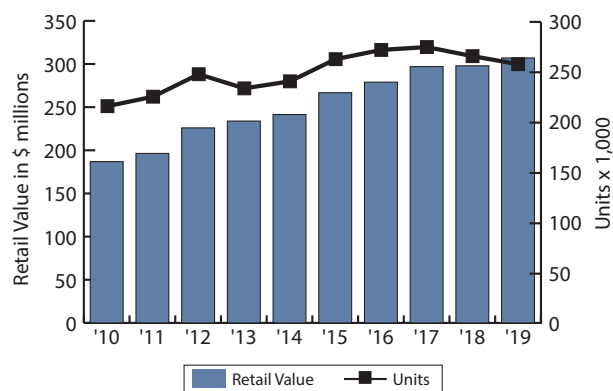
While shipments of woodwinds and brasswinds were stable, stringed instrument shipments declined 9% to 344,000 units in 2019. Whether this represents a short-term inventory correction or a shift in demand is uncertain.

Most students in school music programs access their instruments through rental programs rather than outright purchases. Surveys of school music retailers also indicate that new instruments account for only about one-third of the instruments used in most music programs, with the balance supplied by used and recycled rental instruments. As a result, new instrument shipments to retailers tracked in this report do not precisely reflect music program participation levels. However, in an environment of stable K-12 enrollment levels, 2019 shipments suggest that school music programs continue to attract students and support.

Retail Value Market Share



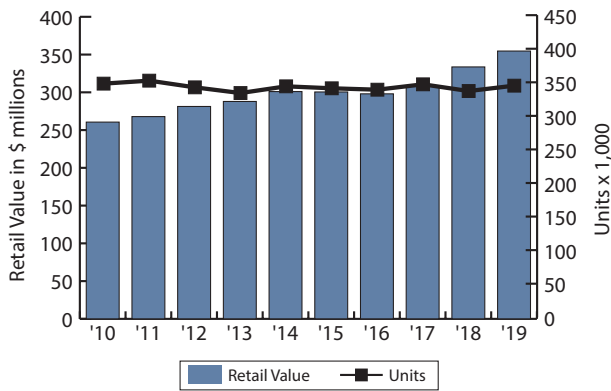
Brass Instruments



	Retail	Unit	Average Price
2019 Summary	3.05%	-3.01%	6.25%
10-Year Trend	64.28%	19.27%	37.74%

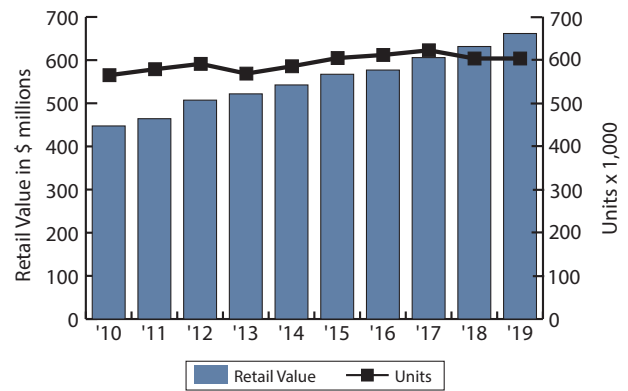
School Music Market, continued

Woodwind Instruments



	Retail	Unit	Average Price
2019 Summary	6.30%	2.37%	3.84%
10-Year Trend	36.11%	-0.87%	37.30%

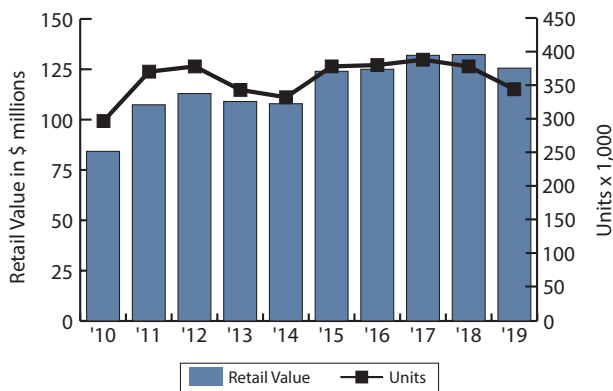
Total Wind Instruments



	Retail	Unit	Average Price
2019 Summary	4.77%	0.00%	4.77%
10-Year Trend	47.88%	6.85%	38.40%

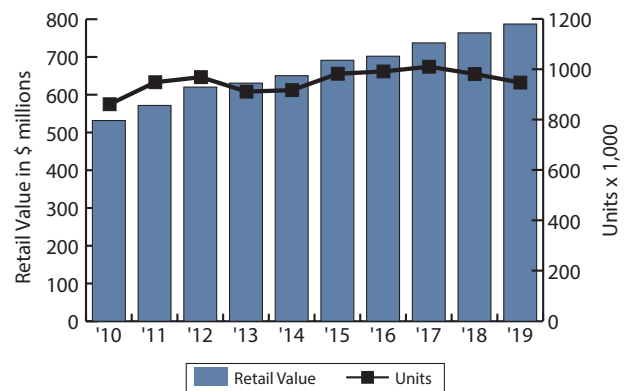
Total Wind Instruments category includes brass and woodwind instruments.

Stringed Instruments



	Retail	Unit	Average Price
2019 Summary	-5.09%	-8.99%	4.29%
10-Year Trend	49.06%	15.98%	28.52%

Total School Music



	Retail	Unit	Average Price
2019 Summary	3.06%	-3.47%	6.76%
10-Year Trend	48.06%	10.00%	34.61%

ARGENTINA

In 2019, Argentina suffered from a critical economic situation: a recessive market, inflation, an unstable but consistently rising dollar exchange rate, and a sharp increase in utilities and taxes.

In October, Argentineans went to the polls to elect a new president to govern the country for the next four years, as well as members of the National Congress and provincial governors. President Alberto Fernandez was elected and took office in December 2019. This new administration emerged with new policies to change the country's previous situation and to improve the general situation of the country. At the beginning of his presidency, Fernandez began taking several important and urgent measures to rebuild the economy and the country as a whole. These new measures created an optimistic climate and set new perspectives for the future. Unfortunately, the outbreak of COVID-19 in March 2020 prevented these new solutions from taking effect, and we are, once again, in an even more difficult situation.

After collecting information from manufacturers, music store owners and importers, this report shows the state of Argentina's music market.

Manufacturers

The former administration's policies have seriously affected manufacturers. Local sales have dropped, some manufacturing companies had to close, and others are suffering but enduring this crisis.

The current president plans to substitute imports where there is local manufacturing and provide manufacturing companies with benefits, such as credit at low rates, tax reductions and suspension of increases on utilities.

However, due to the outbreak of COVID-19 pandemic, manufacturers had to stop production, which has had a considerable effect on their profits. There are also problems concerning exports, since every country has different COVID-19-related regulations, and these new circumstances have negatively impacted some international orders. There are delays at customs and more paperwork and procedural requirements.

Manufacturing companies are now working hard to improve their online sales. The companies that did not already have online channels are preparing their websites to support transactions with clients and continue with their activities. In contrast, the companies that started selling online before the COVID-19 outbreak have increased their sales considerably via the internet. Several weeks ago, some companies obtained the corresponding permits to start production again and sell online. Protocols on safety measures have been introduced at these workplaces.

Music Stores

Sales in music stores dropped 45% in 2019. Prices have risen on a national scale, so people must first meet their basic needs and then go to music stores. However, sales began to increase little by little in December, and a better year was expected. Unfortunately, the outbreak of COVID-19 changed these optimistic predictions. Now, music stores are looking

for new solutions and marketing strategies to face the crisis and encourage consumption. It must be highlighted that online sales have increased substantially in recent months, as it is the only channel merchants have for selling. There are also more options for installments to pay by credit card, and this is a good idea for encouraging consumption. To our surprise and against all predictions, people started to buy musical instruments as they have more free time at home to learn something new.

Imports

In 2019, purchases of imported products decreased considerably due to the abovementioned problems, in addition to people's diminished consumption, and no restrictions on imports.

The new administration established a policy stating that products such as classical guitars, acoustic guitars, strings, acoustic drums, cymbals and acoustic boxes should be regulated under Non-Automatic Import Licenses (in Spanish they are called "Licencias no automáticas"), i.e., these products require an import permit which needs an up to three-month prior approval. This is a good measure to protect the domestic industry.

Conclusion

The former administration left us in a critical state with regard to foreign debt and high inflation rates, and now with the coronavirus pandemic, Argentina has to face many problems. On March 19, 2020, Argentina entered a nationwide mandatory lockdown and, subsequently, authorities have been announcing new measures to help people and companies cope with the pandemic. All this makes it difficult to predict business, so we must be cautious. The music industry has been negatively affected over the last few years, sales of musical instruments have dropped, many companies had to close, and while others can survive, profitability has been reduced.

We at CAFIM (Argentine Association of Musical Instruments Manufactures) are working hard to help manufacturers and owners of music stores to face this crisis and encourage consumption. We promote the development of the music market in various ways. For example, we work together with the government to obtain some benefits, increase sales, improve export procedures, reduce customs taxes, among other initiatives. In May 2020, the Province of Buenos Aires is organizing a virtual Music Fair together with CAFIM. This fair is called "FINDE" and it is an initiative to promote musical instruments and equipment, among other industry products. There will be concerts, DJ sets, talks and at-home workshops to enhance the domestic music industry. We believe that commitment, cooperation, hard work, teamwork and experience are the keys for the growth of music companies.

Mandatory lockdown is expected to continue in urban areas until at least May 24, 2020. The president and authorities are experiencing a challenging time, and they must look after all citizens. Their main concern is our health, so every economic sector has suffered a collapse as people are required to stay at home. This is obviously the best way to slow the spread of the virus, but we are aware it will have an impact on the economy. Perhaps, this coronavirus pandemic opens doors to new opportunities as people around the world have

turned to music to help them through the crisis. Hence, we must work together to help the country overcome this situation. We hope to come out of the COVID-19 pandemic stronger, united and with a rebuilt economy.

Commentary by Lorena Medina, President of CAFIM (Argentine Association of Musical Instruments Manufacturers) and Director of Magma Music S.A. – Argentina.

DOING BUSINESS IN ARGENTINA

Market Overview

Argentina is the third-largest economy in Latin America, with a population of approximately 44 million spread among 23 provinces and the city of Buenos Aires. About 92% of the Argentine population is concentrated in urban areas, with 38% living in Buenos Aires (capital and province), and another 15% in the cities of Córdoba, Rosario and Mendoza combined. The country boasts a talented and educated workforce, but its social fabric has suffered from frequent political and economic turbulence over the last 70 years.

In 2017, the United States exported US\$17.8 billion in goods and services to Argentina and imported US\$7.1 billion, resulting in a bilateral trade surplus of over US\$10 billion. Around 90% of U.S. exports to Argentina are used in local industry and agriculture, including refined oil, airplanes and aircraft, computers, industrial and agricultural chemicals, agricultural and transportation equipment, machine tools and parts for oil field rigs. Primary Argentine exports to the U.S. are crude oil, aluminum, wine, fruit juices, and intermediate goods, such as seamless pipes, tubes and other iron-based products.

There are more than 300 U.S. companies present in Argentina employing more than 155,000 workers. There are also significant opportunities for more U.S. companies in sectors such as infrastructure, energy, health, agriculture, information technology and mining. The U.S. is the single largest source of foreign investment in Argentina, with approximately US\$13.7 billion in investment stock as of 2016. U.S. companies are widely respected in Argentina for their good business practices, transparency, corporate social responsibility activities, high quality and good customer service.

Top Four Reasons Why U.S. Companies Should Consider Exporting to Argentina

- Argentina is a resource-rich country with enormous potential for further development. It has the second-largest shale gas reserves and fourth-largest shale oil reserves in the world, as well as abundant solar and wind resources. U.S. know-how, technology and equipment are needed to develop sectors such as energy and agriculture.
- The country is digitally capable, with high internet and smartphone dissemination.
- Income distribution has a smaller gap than in most Latin American countries; Argentina has a relatively large middle class with a significant appetite for U.S. consumer products.

- According to the Economic Commission for Latin America and the Caribbean, Argentina received US\$11.5 billion of foreign direct investment during 2017.

Market Challenges

Following years of economic mismanagement that resulted in macroeconomic instability, high inflation and a currency crisis have forced the Argentine government, businesses and consumers to cut back on spending. The economy is in recession, which is expected to continue in 2019 and 2020.

Importers must still request Non-Automatic Import Licenses on over 10,500 12-digit tariff lines, mainly in consumer goods sectors. Other business challenges include deep-rooted corruption in certain sectors, a lack of regulatory coherence, weak intellectual property rights protections, inefficient customs and legal processes, poor infrastructure, costly labor and the limited availability of financing.

Market Opportunities

Energy: Oil and Gas. High-quality shale resources and strong support from the Argentine government to encourage exploration and production in Vaca Muerta and elsewhere. Argentina is auctioning offshore exploration and production opportunities for the first time in decades.

Renewable Energy: Oversubscribed energy auctions from renewable sources continue to present medium- and long-term business opportunities.

Agricultural Technology and Machinery: Two-thirds of Argentina's exports are agricultural. The depreciation of the Argentine peso coupled with a predicted stronger harvest in 2019 are expected to boost production, exports and investment in Argentina's agricultural sector.

Information and Communications Technology and Cybersecurity: The Government of Argentina is proposing a new telecom convergence law to increase competition and accelerate technology uptake. The Government of Argentina estimates a US\$20 billion telecom investment over four years.

Design and Construction: Public-Private Infrastructure Projects will be significant and have attracted the re-engagement of Overseas Private Investment Corporation in Argentina. The Inter-American Development Bank (US\$4.65 billion) and World Bank (US\$3.3 billion) have also committed funding for new roads, rail, ports and utilities. However, federal spending cuts and Argentina's current high "country risk" level means US\$55 billion in planned PPP infrastructure projects (planned 2017–2025) are currently on hold.

Health Care Technology: The Government of Argentina is emphasizing efficient spending, accessibility and modernization, including e-health, through their National Health Care Plan. The city of Buenos Aires plans to upgrade 14 hospitals.

Market-Entry Strategies

All import channels are available in Argentina: agents, distributors, importers, trading companies, subsidiaries and branches of foreign firms. U.S. companies exporting

to Argentina typically market their products and services through Argentine agents, representatives and distributors. Companies intending to export to Argentina need to ensure that their partners fulfill all import requirements before shipping any product and must be careful to follow all regulations precisely.

Some Key Points

- Close personal relationships are essential.
- Marketing and promotion are important. Companies benefit by exhibiting their products or services at local and regional trade shows, as well as at U.S. trade shows attended by Argentine buyers.
- Protect intellectual property and engage with qualified lawyers and local professionals as part of the process of signing contracts related to distribution, representation and partnership, or in connection with any large transaction.
- Utilize the full array of resources available from the U.S. Government, including Export-Import Bank export insurance and financing.

“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.

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

ARGENTINA SNAPSHOT

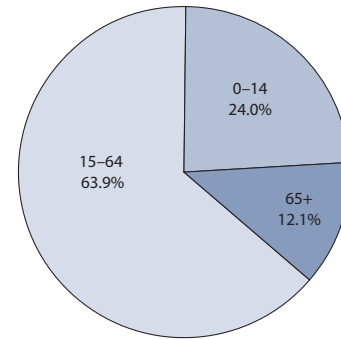
Demographics

Population in millions 45.8

Age	Male	Female
0-14	5.63	5.30
15-64	14.55	14.49
65 & Over	2.33	3.19

Median Age 32.4
Population Growth 0.86%

Demographics

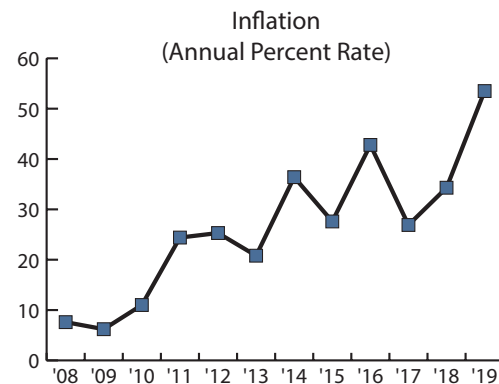
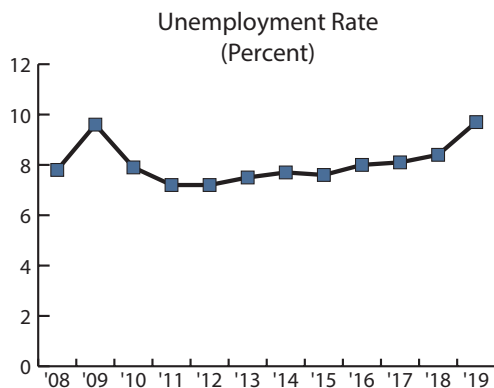
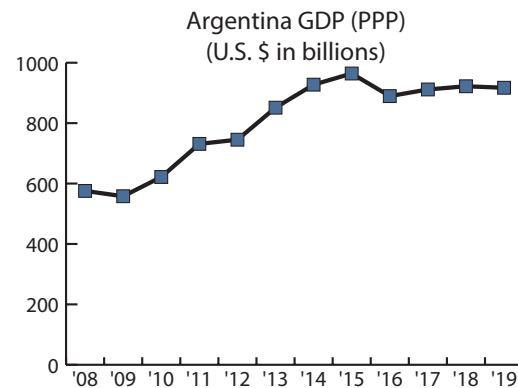
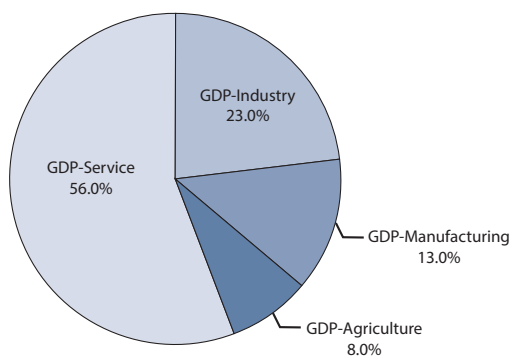


Economy

GDP (PPP)	\$917.1 billion
GDP Per Capita	\$20,611
GDP-Real Growth Rate	-2.50%
Unemployment Rate	9.70%
Inflation	53.50%

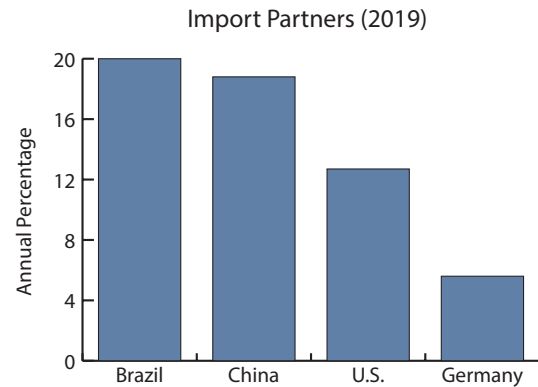
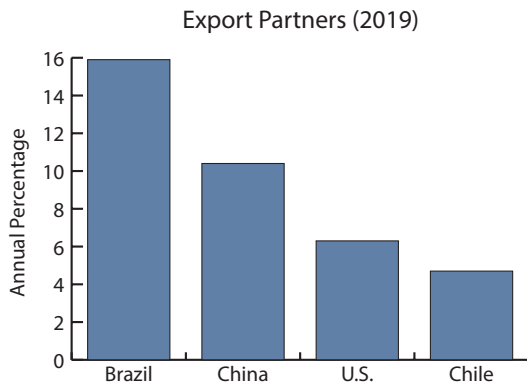
Data Source: Demographics, Economy and Trade from CIA World Factbook, Music Industry from The Music Trades.
GDP (PPP): Gross Domestic Product based on purchasing-power-parity (PPP) valuation of country GDP in U.S. dollars.

Economy



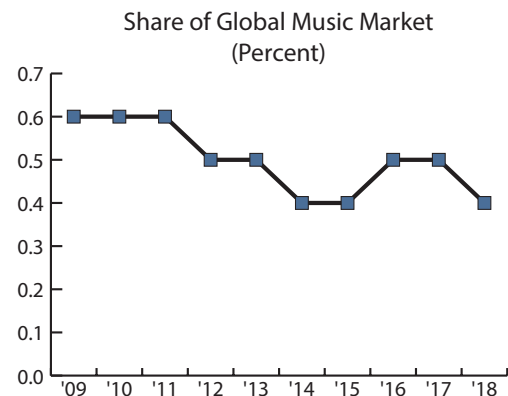
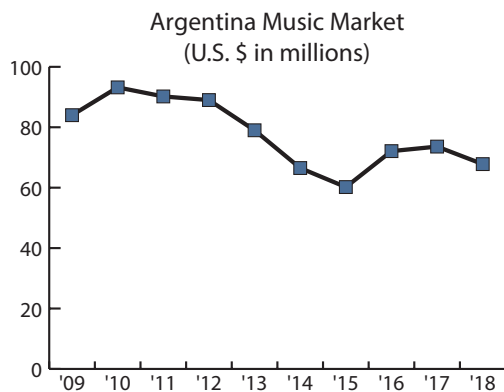
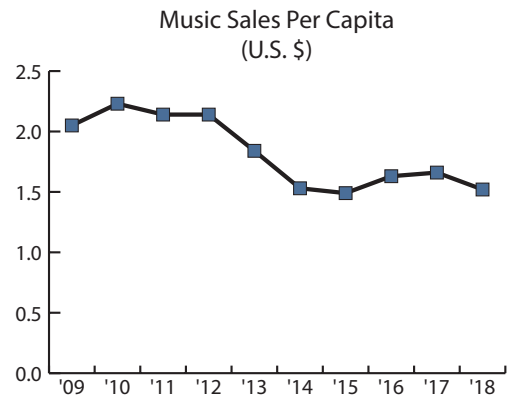
Trade

Total Export	\$65.1 billion	Export as % of GDP	7.10%
Total Import	\$41.1 billion	Import as % of GDP	4.48%

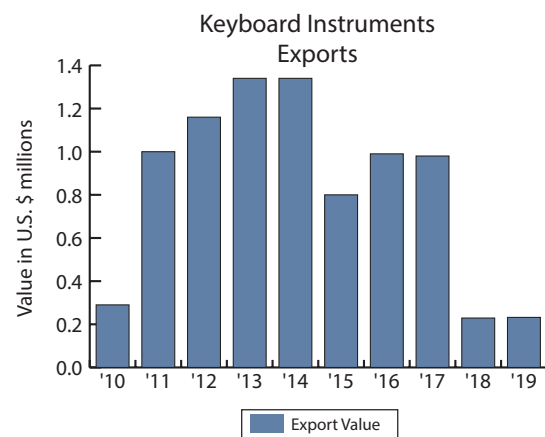
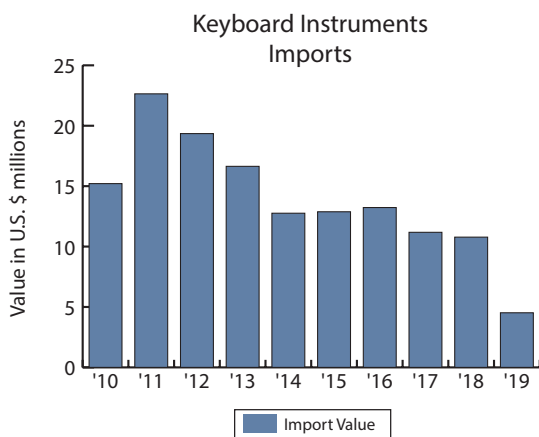
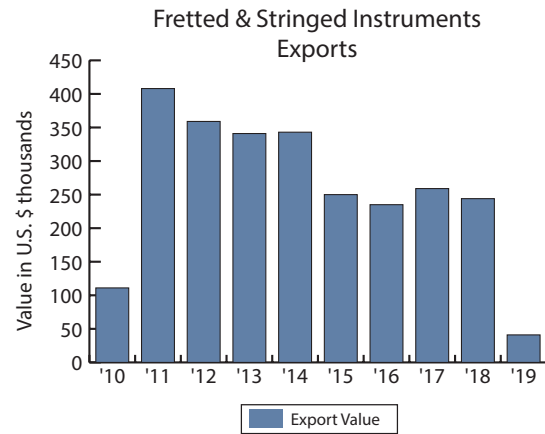
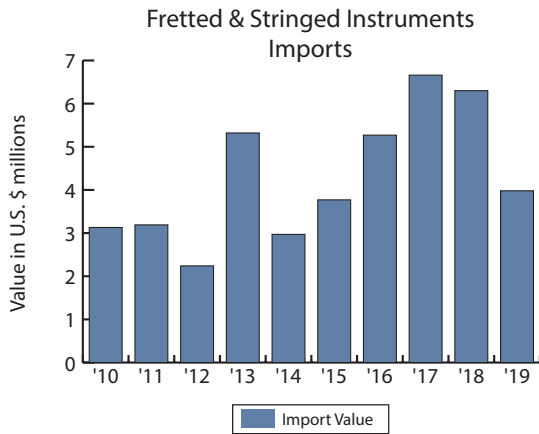
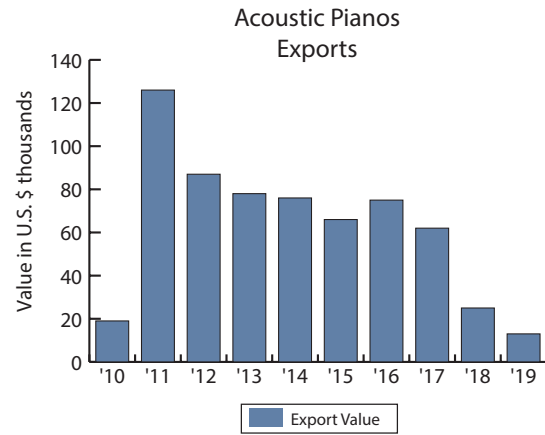
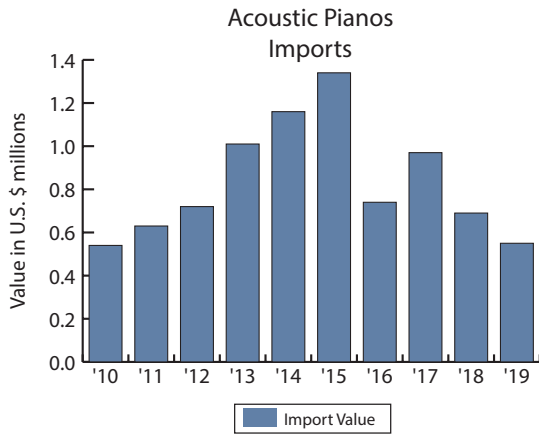


Music Industry

Music Market	\$67.8 million
Sales Per Capita	\$1.52
Global Share	0.40%



Argentina Imports and Exports



Argentina Imports and Exports

