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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	11
Piano and Organ Market	15
School Music Market	17
Pro Audio Market	20
Percussion Market	23
DJ Market	26
Recording and Computer Music Market	28
Electronic Music Market	32
Print Music Market	34
Portable Keyboard Market	35
Karaoke Market	36
General Accessory Market	37

U.S. INDUSTRY SUMMARY & IMPORTS AND EXPORTS

Industry Summary	38
Import and Export Data	46

INTERNATIONAL DATA

Understanding the International Data	54
Argentina	55
Australia	64
Austria	76
Belgium	84
Brazil	91
Canada	100
China	120
Czech Republic	131
Finland	140
France	146
Germany	155
Hungary	167
India	179
Italy	186
Japan	197
Mexico	212
Netherlands	225
Norway	231
Philippines	237
Poland	249
Russia	259
South Korea	269
Spain	275
Sweden	287
Switzerland	295
Taiwan Market	301
Thailand	309
United Kingdom	318

NAMM EXECUTIVE COMMITTEE & BOARD OF DIRECTORS	329
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ACKNOWLEDGMENTS	330
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Percussion Market

Includes drum kits, educational percussion, individual drums and hardware, sticks and mallets, cymbals, heads and hand percussion

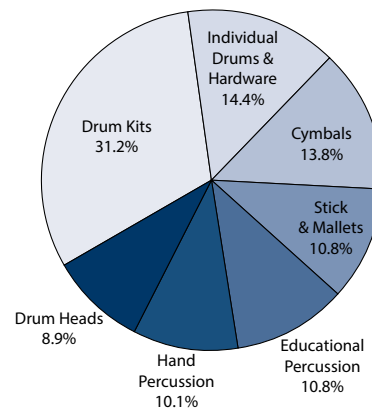
Long-term headwinds impacting the percussion industry were aggravated by the COVID-19 pandemic. In 2020, the retail value of shipments for the industry declined 18.5% to \$305.7 million. The category includes a diverse collection of products that fared differently during the course of the year.

Drum kit shipments declined 14.9% to 106,000 units, while retail value was down only 5.4% due to rising average selling prices. Shipments of entry-level kits continue to be impacted by the shift to electronic alternatives that allow for silent practicing and are easier to record. Higher-end kits were adversely impacted by the limited performance opportunities and the trend in popular music to use electronically generated percussion tracks. The decline in drum kit sales correlates to a decline in the sale of individual drums and hardware.

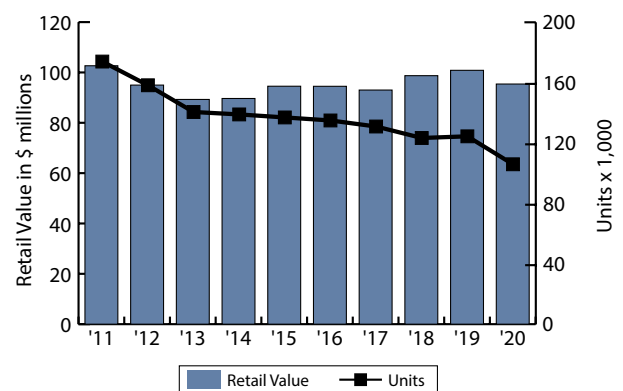
Shipments of educational percussion, which includes mallet, marching, and orchestral instruments, were hard hit from the suspension of most school music programs due to pandemic-related school closures. The category posted a 46.8% decline to \$33.0 million.

Shipments of sticks, mallets, and heads also declined in double digits, due to both the downturn in traditional percussion sales, as well as the shift to electronic percussion. Shipments of cymbals also were off in double digits.

Retail Value Market Share



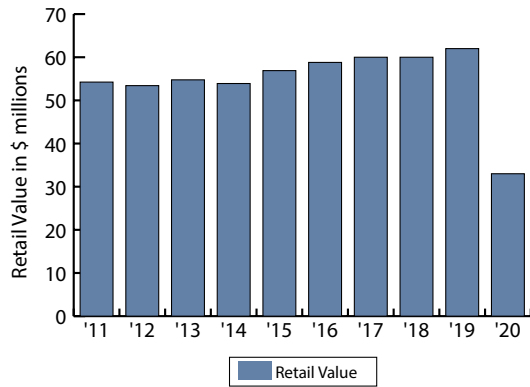
Drum Kits



	Retail	Unit	Average Price
2020 Summary	-5.40%	-14.86%	11.11%
10-Year Trend	-7.07%	-39.08%	52.54%

Percussion Market, continued

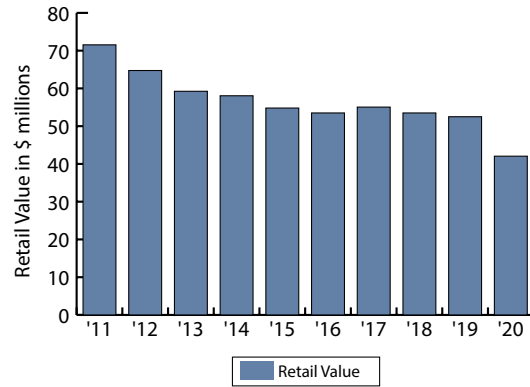
Educational Percussion



	Retail
2020 Summary	-46.77%
10-Year Trend	-39.16%

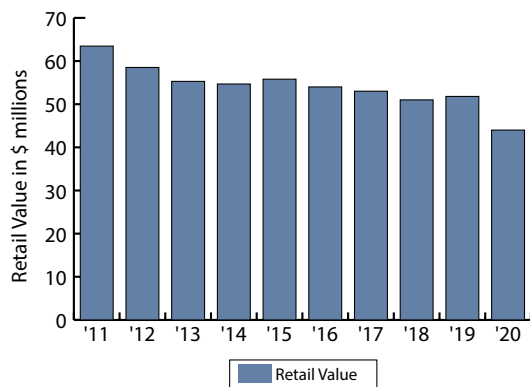
Educational Percussion category includes timpani, marching percussion, mallet instruments, snare drum kits and orchestral percussion instruments.

Cymbals



	Retail
2020 Summary	-19.90%
10-Year Trend	-41.22%

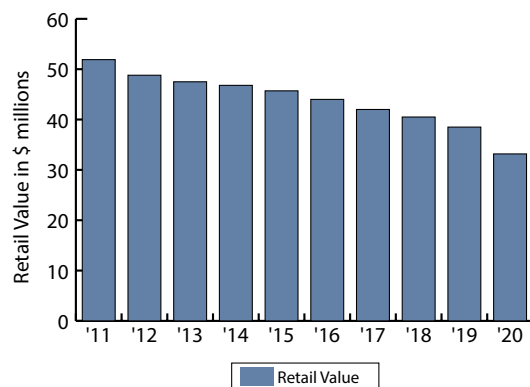
Individual Drums and Hardware



	Retail
2020 Summary	-15.06%
10-Year Trend	-30.66%

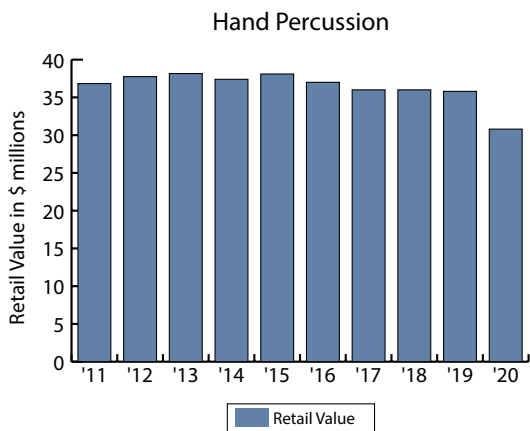
Individual Drums and Hardware category includes individual snare drums, toms and bass drums for drum kits, along with pedals, stands and related percussion hardware products.

Sticks and Mallets

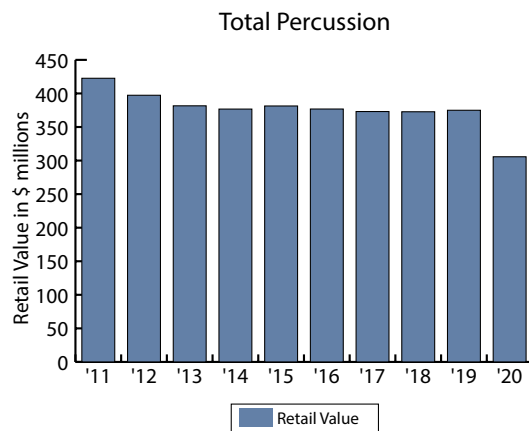


	Retail
2020 Summary	-13.84%
10-Year Trend	-36.08%

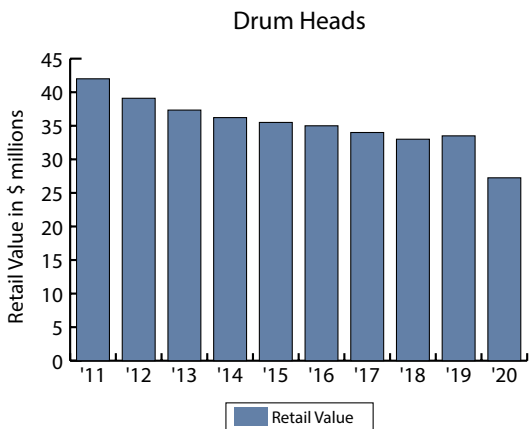
Percussion Market, continued



	Retail
2020 Summary	-13.97%
10-Year Trend	-16.37%



	Retail
2020 Summary	-18.48%
10-Year Trend	-27.67%



	Retail
2020 Summary	-18.66%
10-Year Trend	-35.12%

ARGENTINA

Argentina has been suffering from a critical economic situation: a recessive market, inflation, an unstable dollar exchange rate that rises consistently, a sharp increase in utilities and taxes, and high unemployment rates. The outbreak of COVID-19 in March 2020 prevented the economy from being rebuilt, so we are, once again, in a difficult situation.

On March 20, 2020, a national lockdown went into effect. Residents throughout the country and particularly in the metropolitan Buenos Aires area—the country's COVID-19 epicenter—were not allowed to leave their homes for any other reason than to buy groceries or medicine. This policy lasted many months, making it one of the longest in the world. Due to this, sales dropped by 40% and the inflation rate reached 37%. Last summer, restrictions were eased, which has helped the economy to recover. However, since late April, we have established a new lockdown with certain restrictions as we are surfing the second wave. The vaccination plan started in December 2020, and Argentina is expected to start manufacturing the vaccine in the summer of 2021.

For the music industry, the impact of COVID-19 was an unexpected one. With everyone confined to their homes, sales of musical instruments and accessories fell dramatically. Physical music stores and factories were closed for many months depending on their location within the country. The collapse of the industry not only affected manufacturers and music stores, but also artists and the thousands of people who work alongside them in live shows, from road crew and sound engineers to security guards and transport companies.

The aim of this report is to show the state of Argentina's music market after collecting information from manufacturers, music store owners and importers.

Manufacturers

During the first months of the mandatory lockdown, manufacturing companies had to close and stop producing, which considerably affected their profits. Now, manufacturing companies are open and working hard to improve their sales and production rates. Due to this, companies have focused on online sales to generate new clients and build business.

The Argentine authorities have taken some measures to protect companies in general, including paying the minimum salaries of qualifying employees, and providing preferential credits. Unfortunately, these measures are not enough, as some manufacturing companies have had to close. However, others are resisting this crisis.

Music Stores

Sales in music stores dropped by 40% in 2020/21. As prices continue to rise, consumers are deciding to first meet their basic needs before shopping at music stores. COVID-19 changed the year completely and music stores are still seeking 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 physical music stores in Argentina were closed for many months in 2020, selling online was the only channel they had. Now, stores are open but with restricted hours. Consumers are also being encouraged to pay in

installments via credit cards. Meanwhile, as people have more free time at home, many have begun playing and purchasing musical instruments for the first time. Unfortunately, this is not enough to sustain the whole industry.

Imports

In 2020, the purchases of imported products continued to decrease considerably due to the abovementioned problems and lack of demand.

To protect domestic industry, Argentine authorities have established 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”). This means that these goods require an import permit, which needs a prior approval of up to three months.

Conclusion

Argentina has been facing many economic problems. In 2020, Argentina had the longest mandatory lockdown nationwide and, owing to this, the authorities announced new measures to help people and companies fight the pandemic. All of these measures were not enough and, of course, the music industry has been affected. Sales of musical instruments have dropped, many companies had to close, others are able to survive but profitability has been reduced. It was a difficult year and 2021 may follow similar trends.

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, and reduce the customs taxes, among other initiatives.

The current state of lockdown is expected to continue in the urban area, at least through May 2021. The President and Argentine authorities must look after all citizens and expand the COVID-19 vaccination scheme. Their main concern is our health, and they have reached many agreements with laboratories to start manufacturing the vaccine in our country. Obviously, this is the best way to prevent severe disease, hospitalization and deaths.

All in all, the COVID-19 crisis requires us to change our habits and work together to help the country overcome this situation. We need to come out of this pandemic stronger, with a rebuilt economy and with new opportunities for a better world.

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 45 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. The country boasts a talented and educated workforce, but its population has suffered from frequent political and economic turbulence over the last 75 years.

The COVID-19 pandemic, along with Argentina's two-year economic recession, has compounded the country's economic woes. Current International Monetary Fund (IMF) predictions show Argentina's GDP declining by nearly 12% in 2020. The poverty rate and inflation rate are both over 40%. Since 2017, the official exchange rate has fallen from US\$1:AR\$20 to US\$1:AR\$80, and the unofficial "blue" rate is double that. The Argentine government's 2020 agreement with private bondholders to renegotiate billions of dollars of debt offers some hope as negotiations get underway to renegotiate another US\$45 billion owed to the IMF.

In this recessionary context, U.S. merchandise exports to Argentina declined from US\$9.91 billion (2018) to US\$8.15 billion (2019). Buoyed by a favorable exchange rate, Argentina's merchandise exports to the U.S. rose slightly from US\$4.83 billion (2018) to US\$4.92 billion (2019). Nevertheless, the U.S. retained a sizeable bilateral goods trade surplus of more than US\$3 billion. Around 90% of U.S. merchandise exports to Argentina are used in local industry and agriculture, including refined oil, airplanes and aircrafts, 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, some of which were established over 100 years ago. Despite current macroeconomic challenges, there are significant opportunities for 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\$15.26 billion (stock) worth of investment (2018). U.S. companies are widely respected in Argentina for their good business practices, transparency, corporate social responsibility activities, high quality goods and services, and 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. The country has the second-largest shale gas and fourth-largest shale oil reserves in the world, as well as abundant solar and wind energy resources.
- Argentina is the third-largest lithium producer globally, with plans to increase mining exports over the next decade. More than 70% of Argentina's proven lithium resources have not been exploited.

- U.S. expertise, technology, and equipment are needed to develop sectors such as agriculture, energy, and mining.
- The country is digitally capable, with high internet and smartphone dissemination.

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.

In an effort to shore up foreign exchange reserves and protect domestic production vis-à-vis imports, the Argentine government has imposed some measures that adversely affect foreign products and services. Importers must request Non-Automatic Import Licenses in order to bring in some products. Companies report delays in import license approvals, which in some cases exceed 60 days. In addition, some businesses report problems with accessing the official foreign exchange market, making it more difficult to pay for foreign-currency debt accrued via imported goods or services. Government price controls on a range of consumer products and telecommunications services, among other sectors, in the wake of the COVID-19 pandemic and in response to high inflation, is another complication. Other business challenges include persistent and systemic corruption, 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

Agricultural Technology and Machinery: Two-thirds of Argentina's exports are agricultural. The depreciation of the Argentine peso, government plans to boost exports and a strong international demand all point to an increase in production, exports and investment in the sector.

Construction: Current high-country risk and limited access to financing have put some projects on hold, but the government has plans to invest in urgently needed infrastructure. The Inter-American Development Bank and the World Bank have committed funding for new roads, rail, ports and utilities.

Energy and Minerals: Despite lower global energy prices, long-term prospects for Argentina's shale gas and oil development will continue to drive investment in the Vaca Muerta basin. There are also offshore exploration investment opportunities. Argentina's 2020 national mining plan seeks to increase mining exports, particularly in copper and lithium, over the next decade. The mining sector has a reliable legal and tax framework.

Health Care Technology: The Government of Argentina is emphasizing efficient spending, accessibility and modernization, including e-health, through their National Health Care Plan. This year, in response to COVID-19, the Argentine government has been building modular hospitals, upgrading equipment, acquiring ventilators, diagnostic tests and personal protective equipment.

Information and Communications Technology and Cybersecurity: The Government of Argentina's digital agenda for 2020-2023 is laid out in the ConectAR Plan. The approximately US\$475 million plan is focused on four areas: expanding fiber optic networks, developing a national data center, improving the satellite system and enhancing digital television service.

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 important.
- Marketing and promotion are important. Companies traditionally 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.

"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

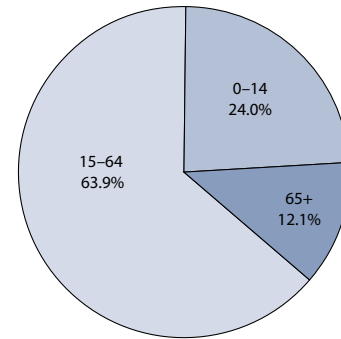
Demographics

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 0.84%

Demographics

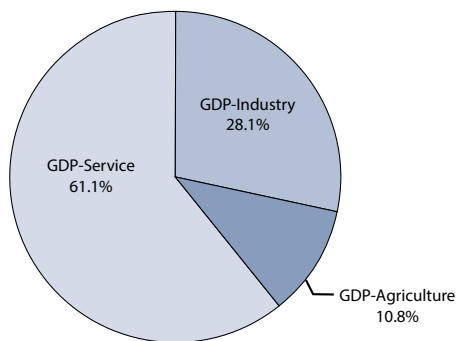


Economy

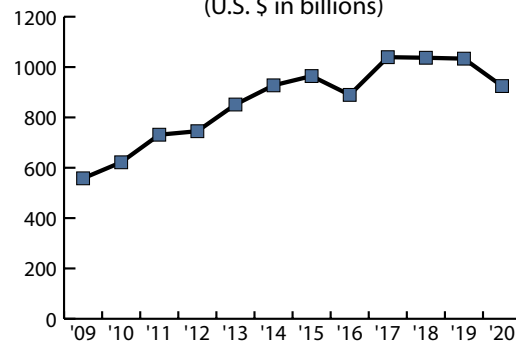
GDP (PPP)	\$924.5 billion
GDP Per Capita	\$20,370
GDP-Real Growth Rate	-11.80%
Unemployment Rate	11.00%
Inflation	46.30%

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.

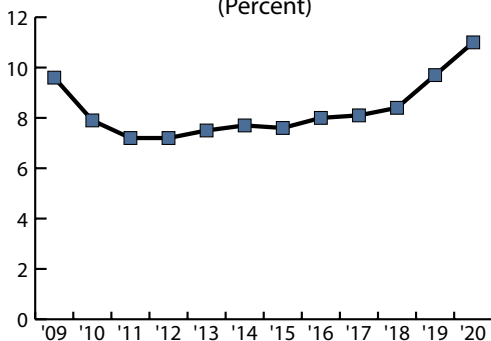
Economy



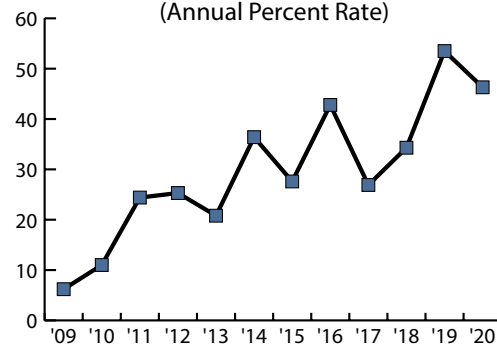
Argentina GDP (PPP)
(U.S. \$ in billions)



Unemployment Rate
(Percent)

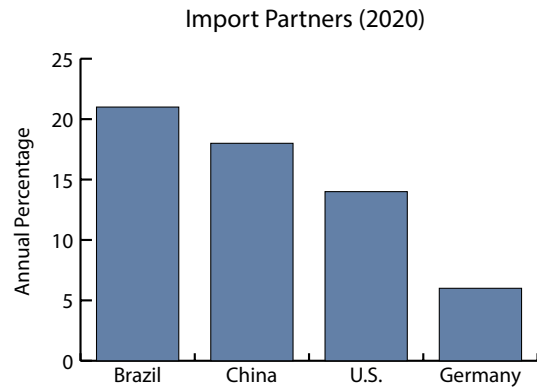


Inflation
(Annual Percent Rate)



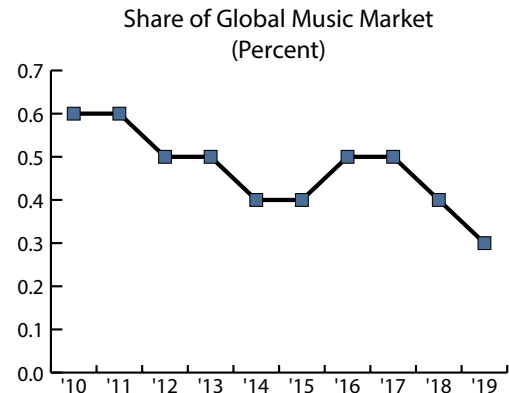
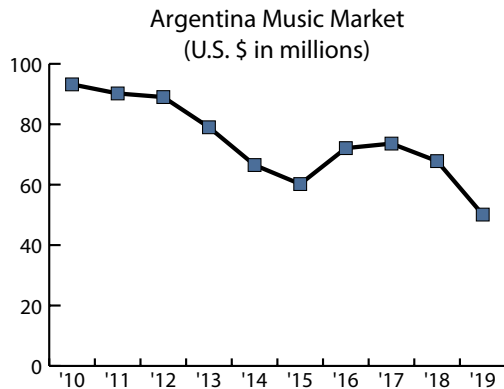
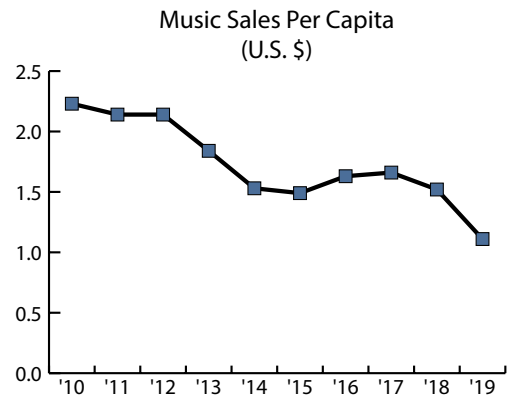
Trade

Total Export	\$54.9 billion	Export as % of GDP	5.94%
Total Import	\$42.4 billion	Import as % of GDP	4.58%

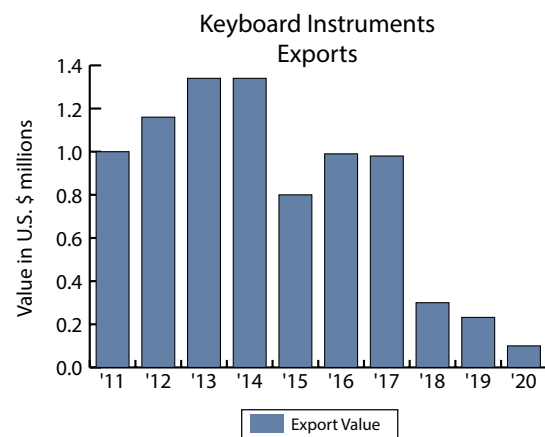
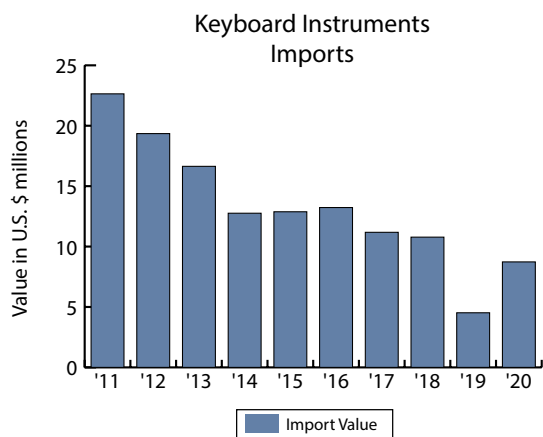
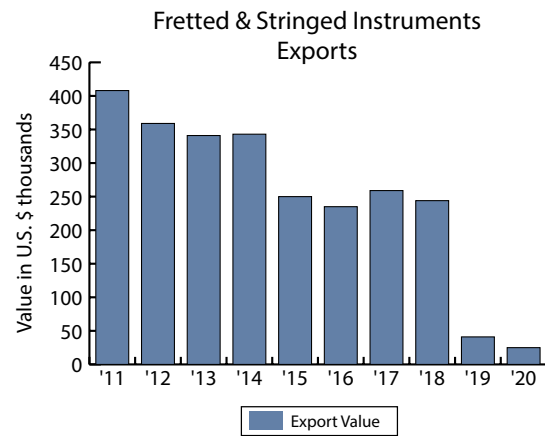
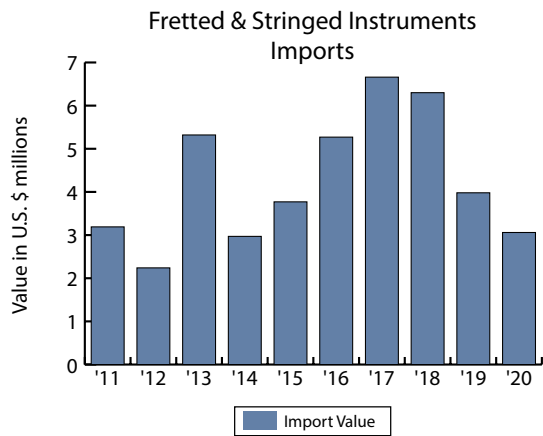
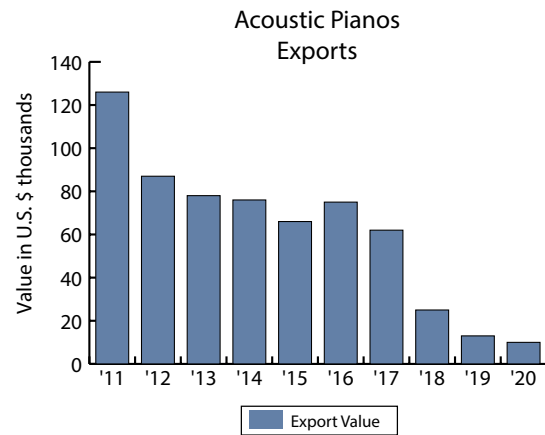
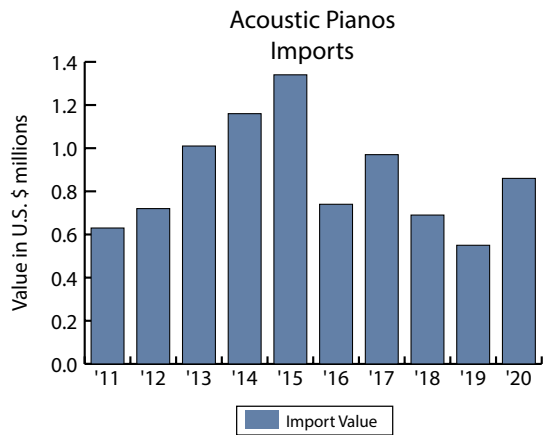


Music Industry

Music Market	\$50.1 million
Sales Per Capita	\$1.11
Global Share	0.30%



Argentina Imports and Exports



Argentina Imports and Exports

