

World Trade And What It Means To You

The fact that we live in a global economy is hardly news to anyone who's glanced at a newspaper or watched a few minutes of television during the past five years. Aside from dominating the headlines, everywhere you turn there is ample evidence of world trade: in the refrigerator (apples from New Zealand); in the garage (cars from Japan); in the closet (apparel from China); and even in the doctor's office (x-ray processing from India). If the larger concept of world trade is no longer "breaking news," the specifics of what is imported and from where is a different matter. Trade flows are shifting constantly, and tracking them can shed light on what consumers are buying and where the most competitive producers are. For that reason, we have initiated Import Tracker, a new quarterly feature (see page 24) that provides data on U.S. imports of guitars, pianos, wind instruments, percussion products, and select electronic products. With this additional coverage, we offer the first hard numbers on how global trade affects the music products industry.

Does country of origin really make a difference to music retailers who have long been accustomed to stocking products from every corner of the globe? Yes and no. Retailers want products that answer the needs of their customers while providing acceptable profit potential. If a guitar or piano meets those criteria, whether it comes from China or Japan is irrelevant. However, because of the three-month lag between the time an import lands in a U.S. port and the day it appears on a retailer's sales floor, charting import data provides a useful leading indicator of larger market trends.

For the past three years retailers and manufacturers have been grappling with the challenge of deflation. With product prices falling, everyone has had to move more units simply to stay even. Data presented in the Import Tracker provides compelling evidence that the industry's deflationary trend is moderating or perhaps even coming to a close. In half the categories we track, declared product values increased between two percent and 28 percent. As these increases work their way through the distribution chain over the next six months, expect price increases in vertical pianos, acoustic guitars, and other product groups.

Our import data also sheds light on another burning industry issue. Are Wal-Mart and Costco destined to



grab an increasing share of the band and orchestral market? While neither retailer has been forthcoming with their intentions, our data shows that imports of Chinese-made wind instruments were 17 percent lower in the first quarter of 2004 than for the same period a year ago. Given the long lead times required by these mega-

retailers, we suspect that the drop reflects either a decreased commitment for the coming fall or excess inventory. Either scenario would suggest that the mass merchants' first foray into school music hasn't been an unqualified success.

Precise import data puts the extraordinary fluidity of the global market into stark relief. With better transportation, communications, and automation, production rapidly flows to the most competitive source in much the same way water runs downhill. Twenty years ago we were providing extensive coverage as U.S. piano manufacturers appealed to the government for tariff protection from Korean imports. "Korean producers, with their lower costs, present a devastating threat to the U.S. piano industry," declared Elmer Brooks, then president of the now defunct Aeolian Piano Company. Korean piano makers did eventually thin the ranks of American piano makers. However, the former scourge of American manufacturers has been almost entirely supplanted by China and Indonesia. For the first quarter of 2004, Korean piano imports to the U.S. totaled a paltry 954 units.

Import Tracker is part of a commitment that dates back to 1890 and three generations of my family: to give our readers unique information that helps them understand the business climate they face. We're confident that in the months and years to come this new feature will become a must read for everyone.

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