

# Why You Should Forget The Economy

**W**ith negative stories dominating the economic news, everyone seems to be anxiously looking over their shoulder, anticipating the next recession. The business cycle hasn't been repealed, so another recession is inevitable sooner or later. The unanswered question is whether it will be sooner or later. Since World War II, there have been ten recessions, or one about every six years. On average, they've lasted 10 months. (Indeed, a common definition of a recession is at least two quarters of declining output.) Right now, there seem to be three dominant factors fueling fears of recession.

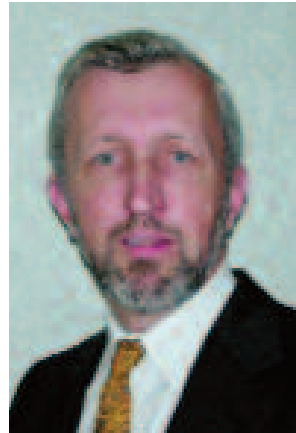
First, housing. Its collapse deepens. Economist Richard Berner of Morgan Stanley notes that sales of new and existing homes have dropped 42% and 30% respectively, from their peaks of more than two years ago. New-home starts are 47 percent below their peak of January 2006 and are still declining. As supplies of unsold homes grow, real-estate prices continue to fall.

Second, oil prices. Any threat to existing supplies (hurricanes in the Gulf of Mexico, a possible Turkish attack into Iraq) sends them up. They're hovering around \$90 a barrel, and analysts openly talk about the possibility of \$100 a barrel, which would adversely affect discretionary income.

Finally, credit problems. As lenders and investors have suffered losses on subprime mortgages—loans to weaker borrowers—they've tightened lending standards for everyone else. The situation may get worse before it gets better, argues analyst Diane Vazza of Standard & Poor's in a new report.

Anyone reading this probably has firsthand experience on how these three factors have adversely impacted the music products industry. The combination of shrinking home equity values and a slowdown in new home purchases has unquestionably taken a toll on the home keyboard market. Those in the 16-to-24-year-old demographic are particularly hard hit by rising gas prices, which helps explain why traffic at m.i. stores is off from last year's level. And finally, tighter credit slows every aspect of commercial activity.

Having outlined prevailing wisdom on the state of the economy, we now urge you to completely ignore it. There's nothing any of us can do to affect these larger trends, and time spent worrying about them is time that can be applied to more productive activities. What's more, dwelling on the bad news has a way of killing any useful business initiatives. If you've convinced yourself that conditions are on the verge of hopeless, it's hard to muster a lot of energy to



critically review your inventory management, sharpen the skills of salespeople, invest in promotion, upgrade a website, or do anything else that could improve your operation. Sort of like asking someone in front of a firing squad about their long range plans.

But, if you can put aside recession worries and bear down on the business at hand, there is a silver lining.

Challenging conditions are inevitably times of opportunity for the prepared. They instill the discipline and encourage the productivity gains that fuel growth when the cycle turns. What's more, over the past century, well run companies, both large and small have managed to parlay a tough economy into major market share gains. There's no reason to believe this time will be any different.

Finally, take comfort in the fact that most recessions are generally short-lived, because they carry with them their own cure. Slumping housing prices may hurt those anxious to sell, but they offer bargains for buyers—akin to a 'Blow Out Sale'—that will free up discretionary dollars to spend on other stuff, including music products. In the same way, high oil prices will eventually encourage the kind of conservation efforts that will lead to... lower oil prices.

One way to ensure that you emerge from the business cycle stronger than ever is to attend the upcoming NAMM show in Anaheim. Here are just a few reasons to go: Your suppliers are hungry for business, so you'll find yourself in a position of strength when it comes to negotiating terms and pricing. Second, rubbing shoulders with the smartest and most accomplished people in the industry, you're bound to pick up more good ideas than you have time to implement. Third, the show is a once-a-year opportunity to get a real "big picture" view of the industry. The dates of the show are January 17-20. To get more information on registering, contact NAMM at [www.namm.org](http://www.namm.org) or 800-767-6266.

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