

# The Evidence Doesn't Justify The Pessimism

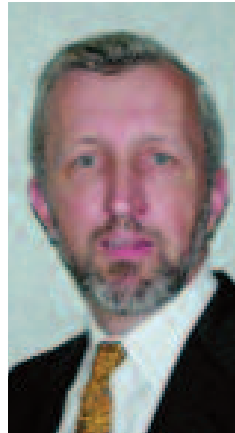
**T**hey don't call economics the dismal science for nothing. It's been pointed out that economists have predicted nine of the last four recessions. And true to form, as of this writing, they're working overtime, regularly citing the dreaded "R" word and churning out dire forecasts for the prospects of the U.S. Before all these somber news stories become a self-fulfilling prophecy, it's worth looking beyond the headlines to some of the underlying data. After even a cursory review of some readily available numbers, it's hard to understand why there is so much pessimism in the absence of truly serious economic trouble.

The news reported that retail sales fell .4% in December and that the overall economy grew at a lackluster 1.5% in the fourth quarter. Hardly numbers to cheer about. However, a one-month drop in retail sales is anything but unusual. In each of the past five years, retail sales have reported at least three negative months. These declines are part of the normal volatility of data, caused by swings in oil prices, seasonal adjustments, or weather. They are not a harbinger of disaster and reading too much into them is a serious mistake.

The continued slump in housing prices is presented as another unfolding catastrophe. There is no question that the sector is weak and that consumers don't like seeing the value of their principal asset decline. However, housing represents just 4.5% of the total economy, and it has already fallen so much that it is unlikely to drive the economy into a recession by itself. While housing woes garner headlines, have you seen any stories on the state of U.S. exports? Neither had we, so we decided to check. Exports represent 12% of the economy, and they are currently expanding at a torrid 13.6% rate, more than enough to offset housing-related woes.

What about the stories of \$100 billion in losses on sub-prime mortgages? Federal Reserve Chairman Ben Bernanke estimates that this loss would represent only 0.1% of the \$100 trillion in combined assets of all U.S. households and non-financial businesses. Say the estimate of sub-prime losses is wildly low and it balloons to \$300 billion. It's still only 0.3% of total U.S. assets. Not a happy situation, but hardly the end of the world either.

A few others numbers are worth mentioning. Personal income rose 6.1% in the year ended in November. For



2007, 66% of the Standard & Poor 500 companies reported earnings that beat expectations. And, after suffering a steep decline, mortgage originations have increased in each of the past two months. Call us a "Pollyanna," but in the face of this data, it seems hard to believe that the U.S. economy is on the verge of a collapse, or even a sharp decline for that matter.

Shifting from a global perspective to the narrow confines of the music products industry, we also find significant grounds for optimism. It's hard to overstate the importance of the amazing products unveiled at the recently concluded NAMM show. Over the past century, advancing technology and improved product value have been the single most powerful drivers of industry growth. Mass production methods in the 1890s made pianos affordable, and spurred enormous demand. In the '30s, the Hammond Organ ushered in the age of electronic music, spawning another burgeoning product category. The electric guitar, MIDI, and digital recording technology are just a few of the more recent advances that have dramatically expanded the industry. As we report in our NAMM coverage, this spirit of innovation remains alive and well, and bodes well for the future.

In a speech to guitar manufacturers, Guitar Center CEO Marty Albertson also outlined a surprisingly simple and straightforward approach to stimulating industry growth. He gave the industry relatively high marks for attracting new customers. However, he said we fail to retain enough of these new customers because of an insufficient focus on education. If he's right (and we think he is), this seems like a challenge that every retailer and manufacturer can begin addressing tomorrow.

If there is a single conclusion to be drawn from this rambling set of observations, it's that the economy is far more vibrant than ominous news reports would suggest, and there are still untapped opportunities within the music industry.

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