

A Fearless Forecast We'll Stand Behind

Getting blindsided by an abrupt and unexpected downturn in business last October robbed business planners of confidence in their ability to forecast. The new mantra from the largest to the smallest business seems to be, "Three-year forecasts? Forget it. We're taking things day by day." It's easy to understand the change in mindset. If you took a big loss on a few carefully planned bets, you might be hesitant to bet again too. We're no different than anyone else. Having failed to call the "October surprise," we're more than a little hesitant to offer any opinions on the future trajectory of the economy. However, here's one forecast we'll make with absolute confidence. Starting in the next three years, the industry is going to start to see significant sales gains that will continue for at least another five years. This fearless forecast is not based on an arcane economic model or wishful thinking about a future wonder technology. Instead it derives from quantifiable, irrefutable data, namely demographics.

In mature markets like toothpaste or apparel, population levels play a key role in determining potential sales growth. Given that music-making predates even history, we operate in one of the world's most mature industries, and our link to demographics is every bit as strong.

For going on six decades, music industry sales have been closely linked to the size of key demographic groups. For school music, it's the eight-to-18-year-old segment. The piano market also depends heavily on this group. In the case of guitars, drums, and most of the other m.i. categories, most buyers fall into the 12-to-28-year-old segment.

If you have any doubts about the role of demographics in consider the following. Since the '50s, unit shipments of wind and string instruments have moved in lockstep with school enrollment levels. Despite social upheaval, enormous cultural change, and changing tastes in music, the key determinant in school music has been enrollment size. The data is a little less clear-cut with other product categories, but there is a clear corollary. The guitar boom of the '60s directly corresponded with what was the largest surge in teenage population on record, the Baby Boom. The severe sales slump in the early '80s occurred when the 12-to-24-year-old population had dropped by



almost 10%, before the Baby Boomers began having children in earnest. Industry growth in the '90s was unquestionably fueled by the Baby-Boom offspring.

Here's where the good news comes in. After flatlining for the last seven years, the population of seven-year-olds is set to rise by 6% in the next two years, creating enhanced sales opportunities for the school music industry. Based on the number of kids who are already born, the growth is guaranteed to continue for at least another five years. As this enlarged population segment ages, the rest of the industry will enjoy similarly expanded opportunities. The population numbers, derived from the U.S. Census, are presented with greater detail in a report that begins on page 52 of this issue.

Since the close of World War II, the U.S. economy has labored through 11 recessions with an average duration of 14 months. This current downturn is unquestionably more severe than any others in recent memory. However, it too will end. And when it does, the industry's market potential will be improved by at least 6%.

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