



## **The NPD Group: Decline in U.S. CD Sales Drives Down Overall Music Demand by 2 Percent in Third Quarter of 2008**

***Paid downloading gains traction and music-related games are evolving into an important source for music discovery***

**PORT WASHINGTON, N.Y., December 18, 2008** – According to The NPD Group, the leader in market research for the entertainment industry, year-over-year consumer demand for music among Internet users in the U.S. fell 2 percent in the third quarter (Q3) of 2008. This overall decline in music acquisition includes purchased CDs, purchased digital music downloads, files obtained on peer-to-peer (P2P) file sharing Web sites, and borrowing music files to rip to a computer or burn to a CD.

The proportion of U.S. Internet users, age 13 and older, purchasing a CD in the prior month fell from 25 percent in Q3 2007 to 22 percent this year. NPD estimates that the volume of CDs purchased declined by 19 percent in Q3 compared to last year. The most dramatic declines in CD sales volume were among teens (down 34 percent) and among adults age 26 to 35 (down 36 percent). CD purchases by adults age 36 and older showed a more moderate decline of 10 percent.

Paid digital downloads experienced growth in the number of buyers, and the volume of tracks sold in Q3. Fifteen percent of Internet users purchased music from online music stores, such as iTunes and AmazonMP3, which is an increase of 2 percentage points over last year and equates to approximately 2.8 million additional music-download customers. Legal music download volumes increased by 29 percent in Q3 with positive numbers seen for all age groups except the 50-and-older segment, which represents a small portion of buyers.

“The continued growth in the customer base for paid digital downloads is positive, particularly for teens, but it’s counteracted by deepening softness in CD trends,” said Russ Crupnick, entertainment industry analyst for NPD. “Alternative distribution deals in mobile and social networking are important ways for the music industry to fill the gap left by the decline in traditional revenue streams.”

The number of Internet users sharing music on peer-to-peer (P2P) sites held steady at 14 percent in Q3 2008; however the volume of music shared via P2P sites rose by 23 percent, as P2P users reported downloading more files. Teens purchased 34 percent more paid digital downloads compared with year-ago, however growth in P2P file downloading was acute among 13- to 17-year-olds -- up 46 percent. NPD noted that the practice of sharing files for the purpose of burning to a CD fell 25 percent among teens, which suggests an increased preference for having the files in a digital-only format.

“The industry has managed to constrain the number of people who are file sharing, but the expanded use of services such as Bit Torrent enable entrenched P2P users to download a growing number of files,” said Crupnick.

Video gaming also appears to have positive effects for the music industry. Twenty-two percent of music buyers (CDs, digital or mobile) overall – and 35 percent of consumers under the age of 35 -- reported playing a music-based video game, such as Rock Band or Guitar Hero, in the prior three months. Many of these music gamers reported that the gaming experience had a positive outcome, such as creating music discovery or triggering a digital-music or CD purchase.

“Year-to-date through November, the music and dance genre was the best-selling genre in video games, representing 16 percent of total software sales for the year,” according to Anita Frazier, NPD’s video games analyst.

“Even though gaming competes with music for the consumer’s entertainment wallet share, music-related games are evolving into an important source for music discovery that can have positive revenue implications for the recording industry,” Crupnick said.

*Data note: Information in this press release was derived from surveys of consumers in the U.S. Data was based on a sample of more than 4,400 consumers, and results were balanced to reflect the U.S. Internet population (age 13 and older). The music gaming information is sourced from NPD Entertainment Trends in America and NPD MusicLab.*

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