

# CIGLOB

CENTRO INTERNACIONAL DE  
GLOBALIZACIÓN Y DESARROLLO

## **The Art Market at Times of Economic Turbulence and High Inequality.**

Andrés Solimano

IMC Workshop (Geneva) and EIB (Luxembourg) Special Seminar  
June – 2019.

# The Art Market at Times of Economic Turbulence and High Inequality.

---

Andrés Solimano

International Center for Globalization and Development (CIGLOB)

IMC Workshop (Geneva) and EIB (Luxembourg) Special Seminar

June – 2019.

# Motivation

- Art in times of high **wealth creation** (concentrated at the top), **uncertainty, macro crises, trade-wars, de-globalization**.
- The strong **irruption of the global art market** (paintings, sculptures, prints, drawings, artifacts): annual sales of 67 billion dollars and rising (2018). .
- Art as a **refuge** to financial and geopolitical turbulence?
- **Dual role of artwork**: aesthetic enjoyment and investment asset.
- **Declining public support** for the arts.
- Influence of **big money/wealth** on the art market.
- **Extravagant prices** (Koons, Da Vinci, Monet, Hockney).
- **Market- segmentation**, big sales in large auction houses/large galleries but quantities in middle size-small galleries.

# Monet's Haystack (sold, USD 110 million).



Haystacks (frost, dawn) by Claude Monet: History, Analysis & Facts

# Da Vinci 's “ Salvatore Mundi” (sold, USD 450 million)



Leonardo da Vinci's 'Salvator Mundi' Is Coming to the Louvre Abu ...

# Jeff Koons (living artist)'s “Rabbit” (sold, USD 91 million)



RTVE.es



Arte: 'Rabbit', del estadounidense Jeff Koons, supera los 91 ...

# Motivation (cont.)

- Macroeconomic cycles and financial crises (e.g 2008-09) and the art market .
- Is art a “safe-heaven” asset?
- Does art rise the value of portfolios in bad times ?
- Wealth shocks and the demand for art.
- Valuation conundrums.



# Themes of the Presentation

- A. Main Features of the Art Market.
- B. Art Prices During Macroeconomic Cycles and Financial Crises.
- Stocks and Gold.
- Safe-havens.
- Historical Evidence and Correlation Analysis.
- C. Wealth Inequality and the Art Market.



# A. Seven Features of the Art Market

- Transaction costs and liquidity.
- Privatization and Financialization.
- Concentration and Polarization.
- Sensitivity to macroeconomic cycles and crises.
- Lack of regulation, tax avoidance/elusion, money laundering.
- Increasingly globalized market: main players (USA, UK, China).
- Niche market influenced by high wealth concentration at the top.

## (i) Transaction costs and liquidity.

- Art objects are unique and heterogeneous.
- Cost of finding buyers.
- Forgery and provenance issues.
- Masterpieces have infrequent sales.
- All this makes *transactions costs* non-trivial.
- The ability of a collector or buyer to convert a piece of art into money can be limited. This is a market with potential lack of *liquidity*.

## (ii) Privatization and Financialization

- Growing **private ownership** of artwork of high-value. How affects public museums?.
- The art market is increasingly **financialized** with art becoming a vehicle of investment — a new *asset-class*.
- Hedge funds, family offices, art investment funds, commercial banks all interested in investing in art. Knowledge needs.
- Average rate of return from trading in artworks does not differ, substantially, from the return of holding stocks or bonds once adjusted by risk premiums. The Keynes collection study.

### (iii) Concentration and Polarization

- The bulk of the number of transactions – volume- is concentrated at the *lower-end* of the market, while the bulk of *sales value* is concentrated at the *higher-end* of the market.
- The *auction segment* of the market, now accounts for almost half of the total fine art sales in 2017—\$28.5 billion of \$63.7 billion (McAndrew, 2018, 16).
- The upper-end of the art market is characterized by highly personal relations and rather obscure practices regarding price and fee

Share of Lots Sold and Total Value at Global Fine Art Auctions in 2017 by Price Bracket.

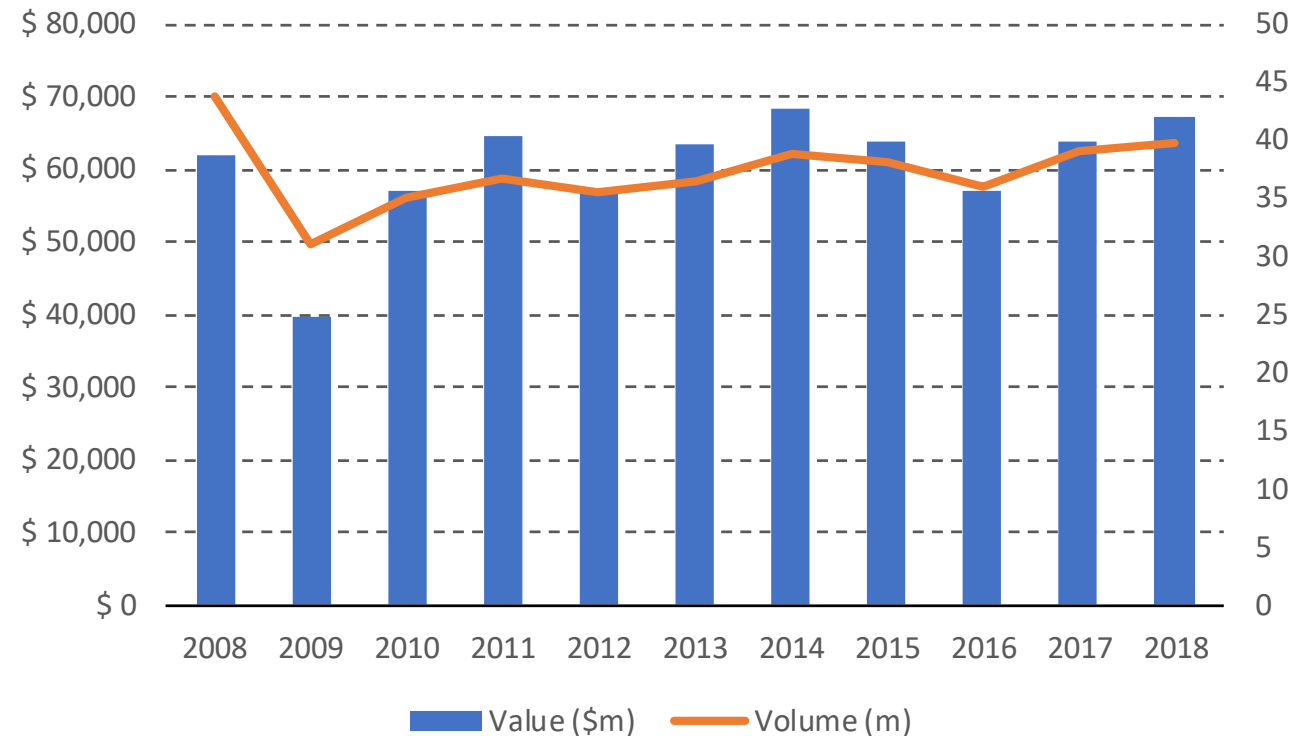
	Value	Volume
Lower-end (Below \$50k)	8.6%	89.8%
Middle Market (\$50k - \$1m)	27.9%	9.4%
High-end (Above \$1m)	63.5%	0.9%
Total	100.0%	100.0%

Source: McAndrew, C. (2018).

#### (iv) Sensitivity to macroeconomic cycles

- The *aggregate* evidence suggests the art market tends to behave in a *pro-cyclical way*, with *total sales/volumes* rising in the upswings, and declining in the downturns of the business cycle.
- Upward and downward cycles can affect differently the various segments of the art market.

The Global Art Market: Value and Volume of Transactions, 2008-2018



Source: Table 1, McAndrew (2019)

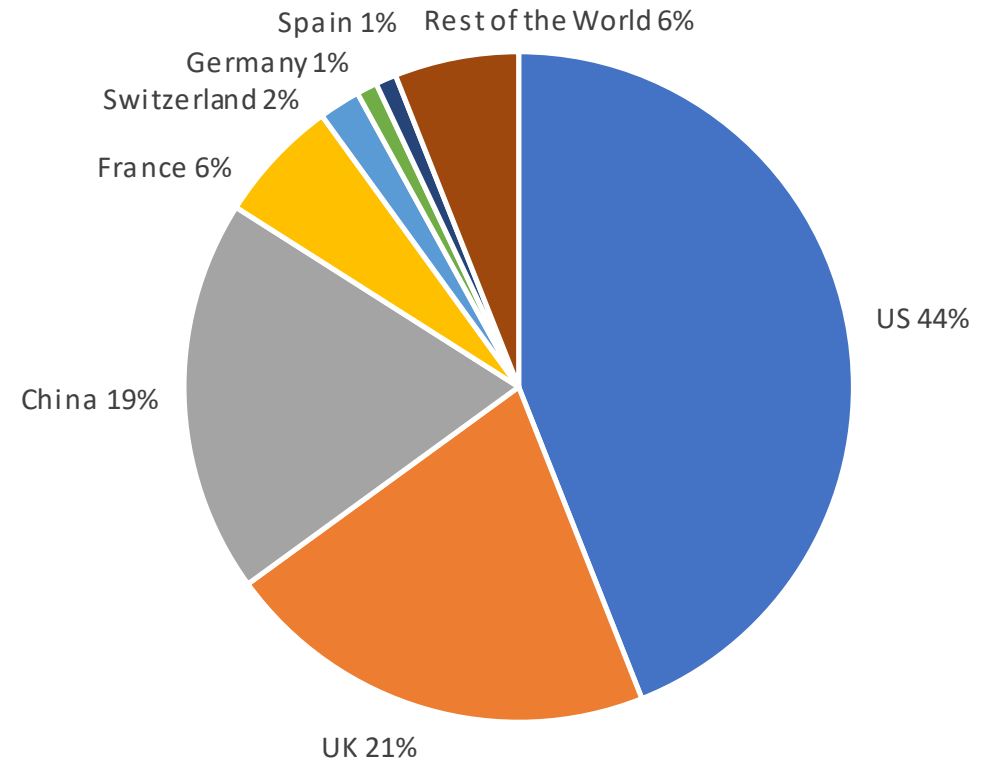
## (v) Lack of Regulation, Tax Avoidance/ Tax Elusion, Money Laundering.

- **Weak regulation** of the art market.
- Little protection to buyers from manipulative practices.
- **Freeports**: Top collectors are increasingly buying artwork as investments to reduce their tax burden.
- **Money-laundering** through acquisition of art?

(vi) The art market is increasingly globalized

- The US, UK and China concentrate over 80 percent of total sales in art followed by France, Germany and Switzerland.
- In the 1970s and 1980s, the Asian regional art market started to rise. First, conducted by Japan and nowadays, by China.

Global Art Market Share by Value in 2018



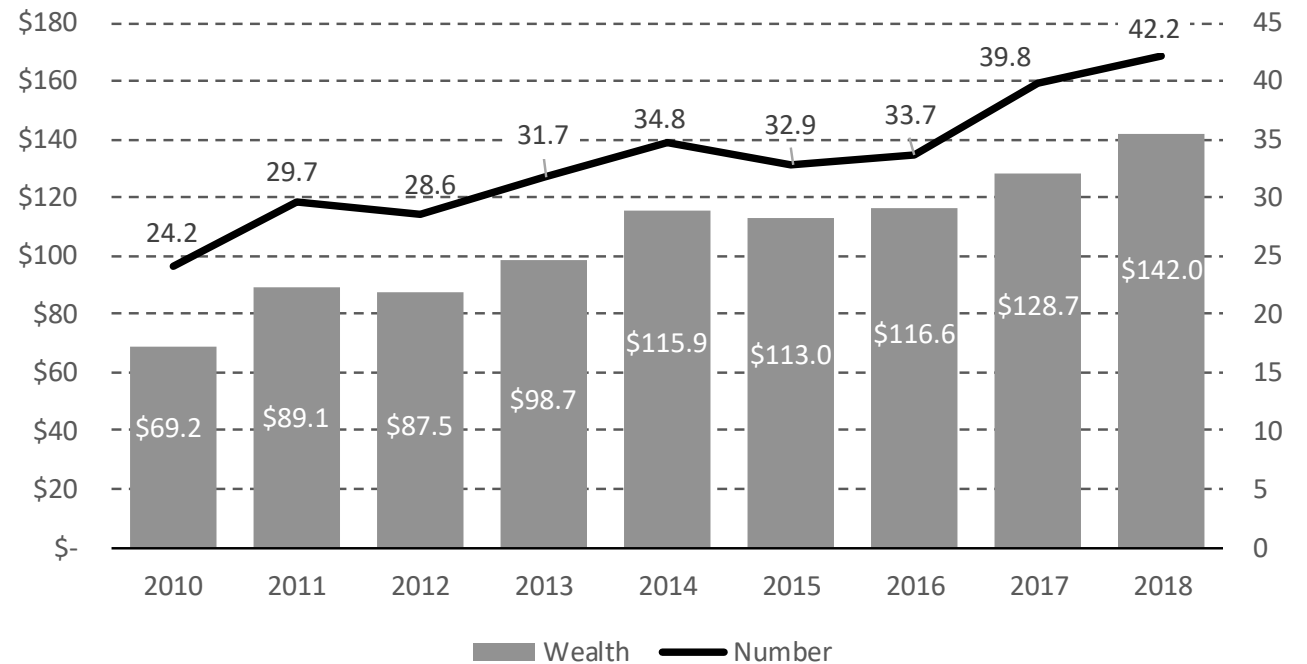
Source: Art Market 2019



## (vii) The Art Market is Influenced by Wealth Inequality

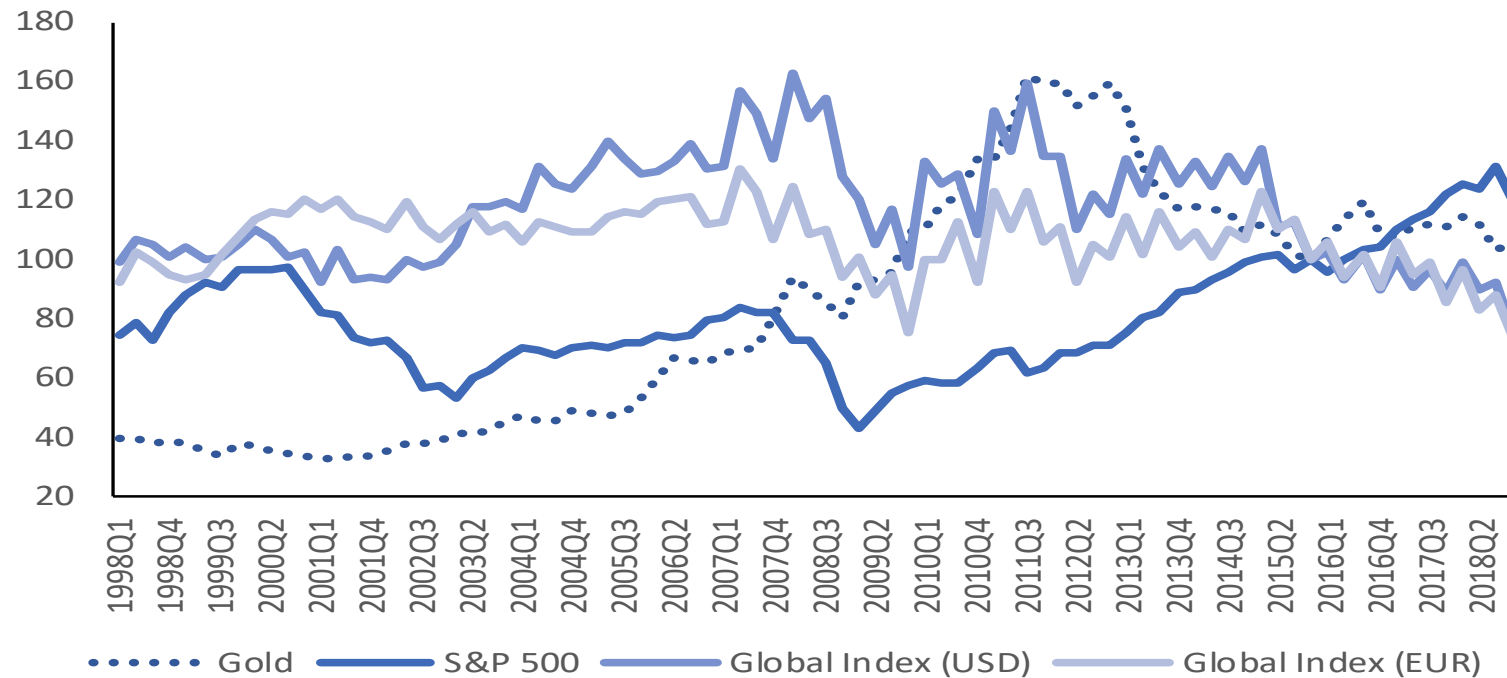
- The evidence shows the growth of the art market and the predominance of its upper-end has coincided with the rapid increase in the number of wealthy people and the growth in their assets in the world economy

Number and Wealth of Dollar Millionaires 2010–2018



Source: Art Market 2019

## B. Art Prices, Stocks and Gold in Macro Cycles and Financial Crises (1998-2018, quarterly)



# Art Prices in the 1998-2018 cycle.

Pre crisis increase (T/P)	Change, %
(1998Q1-2008Q1)	64.6
Crisis correction (P/T)	
(2008Q1- 2009Q4)	-39.6
Recovery/Boom (T/P)	
(2009Q4- 2011Q3)	77.0
New correction (P/T)	
(2011Q3-2018Q4)	-53.0
-----	
Note: T= Trough, P=Peak. Elaboration from series from Artprice.com in real dollars of 2015 Q4, deflated by US CPI.	

# Stock Prices (S&P 500) in the 1998-2019 Cycle.

Pre-crisis increase (T/P)	Change, %
1998(Q1)- -2007(Q3)	14.2
Crisis correction (P/T)	
2007(Q3)- 2009(Q1)	-47.0
Post-crisis recovery/boom (T/P)	
2009(Q1) – 2018(Q3)	197.0

# Gold Prices in Three Crisis: Great Depression (1930s), Stagflation (1970s) and Global Financial Crisis (2008-09).

	Real Price (USD per ounce)	Ratio peak/trough and percent change
Great Depression of the 1930s		
1920 (6)	235.15	1.19 (19%)
1929 (9)	281.23	
1929 (12)	282.87	2.18 (118%)
1934 (2)	617.93	
Stagflation of the 1970s		
1970 (12)	215.7	9.48 (848%)
1980 (1)	2,046.0	
Global Financial Crisis of 2008-09		
2001 (3)	350.5	5.39 (440%)
2005 (8)	523.58	
2008 (3)	1,064.96	
2011 (8)	1,891.60	
2014 (11)	1,176.04	

# A Century of the Ratio of Gold Prices to Stock Prices, 1914-2015.



# Is Art a Safe-Haven Asset?

- A *safe haven asset/investment* is one that its price (or rate of return) is either **uncorrelated or negatively correlated** with other assets of a portfolio.
- Historical evidence of cycles shows that:
  - **Art prices** (aggregate indices) **are pro-cyclical**.
  - **Stock prices** are **pro-cyclical**.
  - **Gold prices** are **counter-cyclical**, a safe-haven asset.
- Correlation analysis.



## Price correlations

- The evidence is not entirely conclusive for all indices but we can detect a *negative correlation* (significant at 99%) between the real global art price index and two stock market indices: the real Nikkei 225 and the real S&P 500.
- At the same time the global art market price index (in USD) has a *positive correlation with gold prices*.

## Correlation Matrix between Art Prices, Financial Assets and Commodities (real prices, first quarter of 1998 to second quarter of 2018)

	Nikkei 225	S&P 500	Gold	Oil	Art Price Global Index (USD)	Art Price Global Index (EUR)	FTSE China A50 <sup>A</sup>	MSCI World Historical Data <sup>A</sup>	Bitcoin <sup>B</sup>
Nikkei 225	1								
S&P 500	0.71 ***	1							
Gold	-0.44 ***	0.1	1						
Oil	-0.5 ***	-0.19 *	0.74 ***	1					
Art Price Global Index (USD)	-0.33 ***	-0.37 ***	0.29 ***	0.7 ***	1				
Art Price Global Index (EUR)	-0.01	-0.15	-0.24 **	0.1	0.54 ***	1			
FTSE China A50 <sup>A</sup>	0.14	-0.04	0.04	0.21	0.19	0.19	1		
MSCI World Historical Data <sup>A</sup>	0.88 ***	0.91 ***	-0.14	-0.24 *	-0.24 *	0.09	0.1	1	
Bitcoin <sup>B</sup>	0.59 ***	0.68 ***	-0.3 *	-0.33 *	-0.11	-0.51 ***	-0.54 ***	0.69 ***	1

Significance (99%)\*\*\* p<0.01, significance (95%) \*\* p<0.05, \* significance 90%(p<0.1).

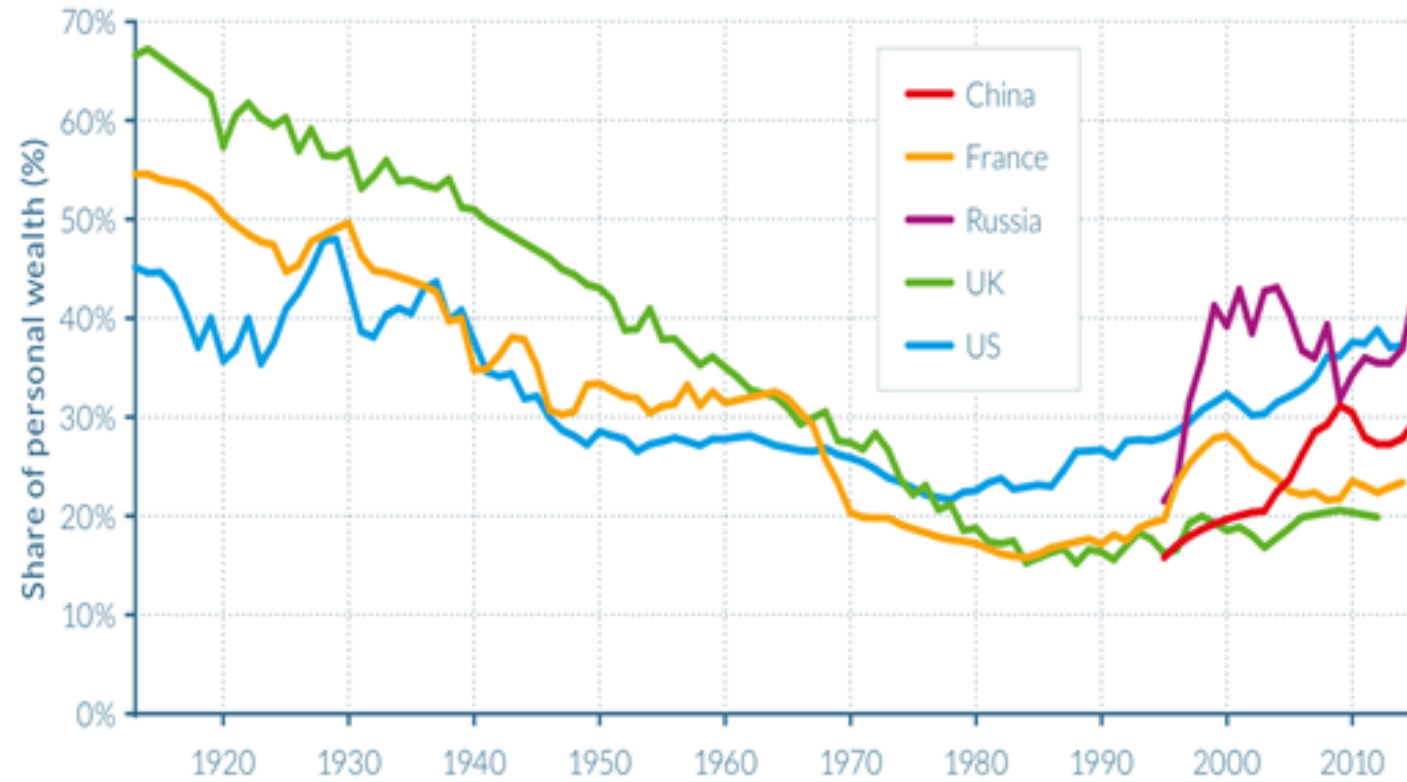
A : Correlation are calculated from 2004Q4

B : Correlations are calculated from 2010Q3

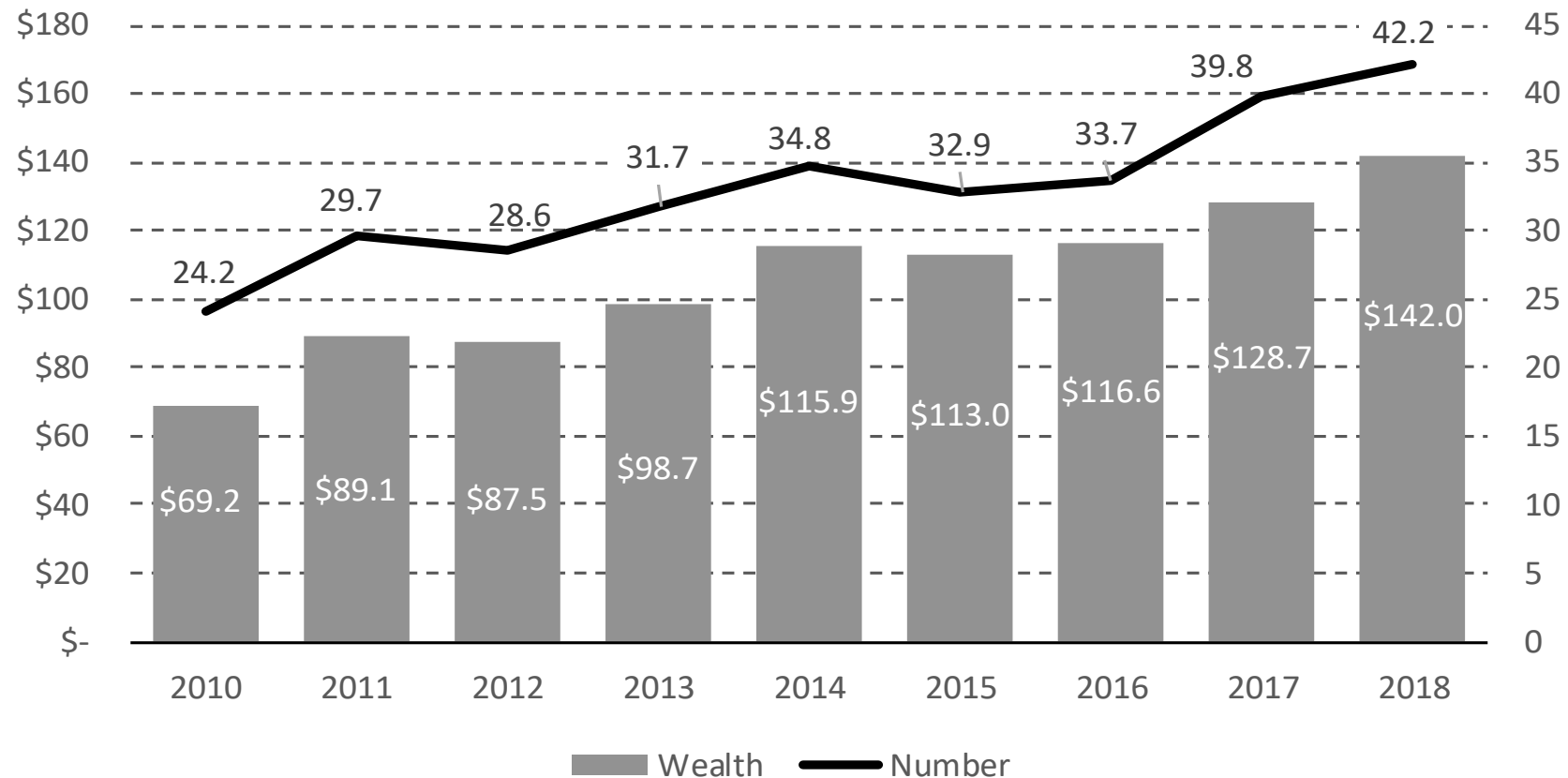
## C. Wealth Inequality and the Art Market

- Wealth distribution within countries.
- Wealth distribution between countries.
- Wealth shocks and the art market.

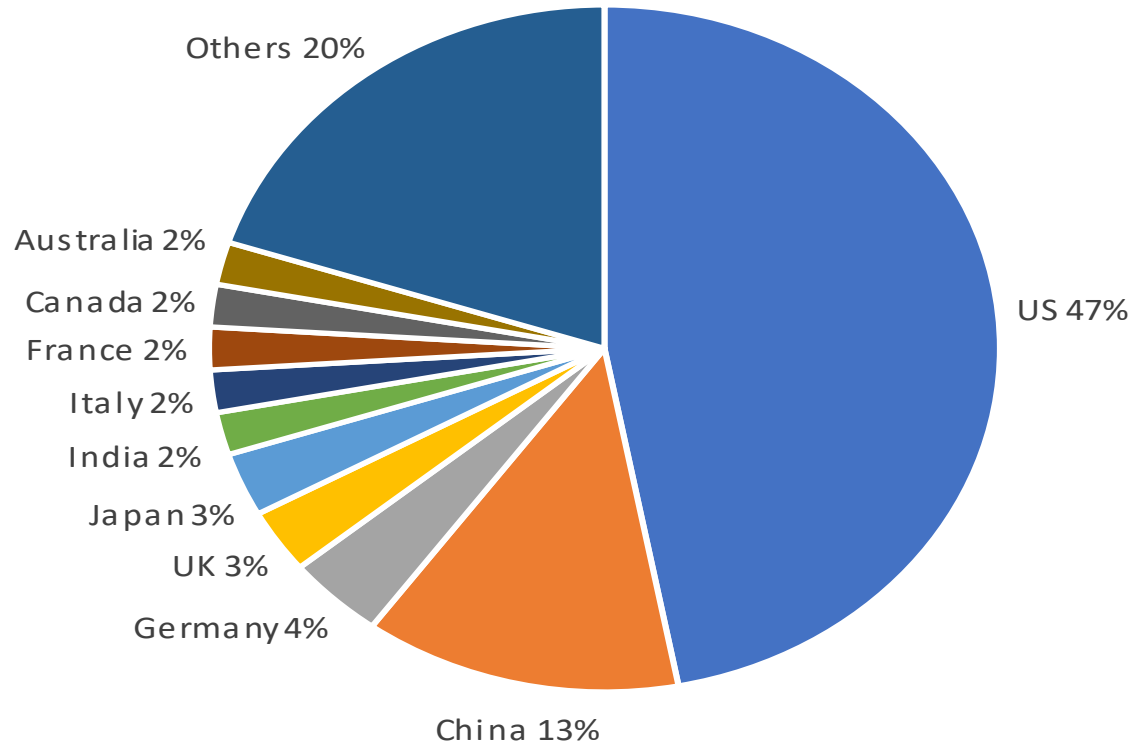
# Wealth Share of the top 1 percent in Five Main Economies.



# Number and Wealth of Millionaires, 2010-2018



**\_ Global Share of Millionaires with Wealth in Excess of \$50 Million in 2018 (USA and China dominate, they are also the main art markets)**



# Art and Wealth Shocks

- Recession-led decline in asset prices and wealth reduces the demand for artworks.
- Are Masterpieces resilient to adverse wealth shocks?
- Are artworks a “safe-haven”?
- Wealth concentration at the top and market segmentation (niche market for artwork of high value).
- Positive correlation between the number and stock of wealth of millionaires and billionaires and the price of artwork