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THE GLOBAL ART MARKET IN 2013. LEADERS & LAGGARDS

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The Global Art Market in 2013, Leaders & Laggards

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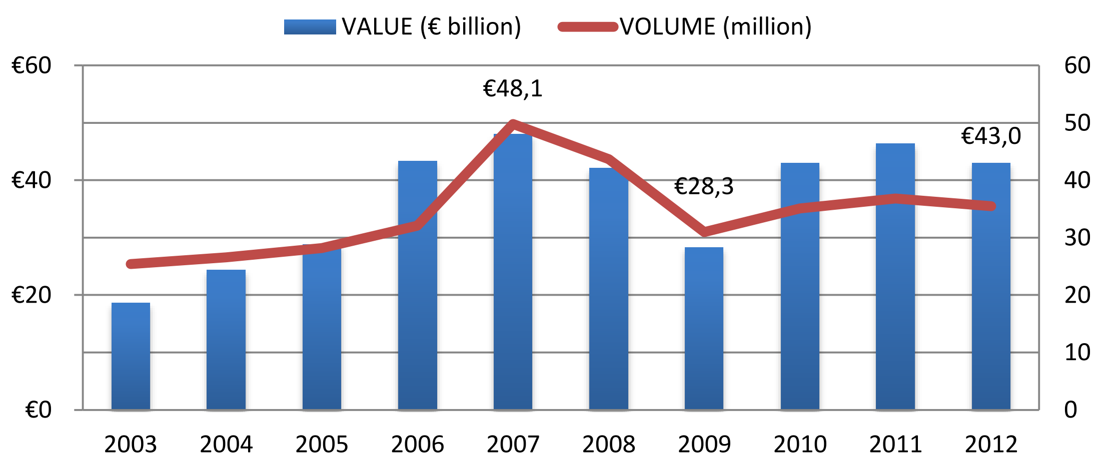
The purpose of the presentation is to provide a review of the global art market, and define its "leaders and laggards", i.e. who is leading and who is lagging behind, and also give a sense of where Spain is fitting into the picture.

The global economy is currently going through a difficult period. Recovery from the global financial crisis has been prolonged and difficult in many regions, especially in Europe. These problems have filtered down into the art market, which has become strongly polarized with the top end showing the best performance, while many businesses in the middle and lower ends, struggle to survive.

The global art market as a whole, contracted by 7% year-on-year in 2012, reaching 43 € billion in sales.[1] This amount represents both auction and dealer sales, and all sales of fine and decorative arts and antiques, i.e. the entire aggregated sales of all measurable market agents. From 2003 to 2007 there was a great boom in the art market, but nearly all sectors suffered a drop in 2009, with a third of the value of the market wiped off in a space of a year. However, it came back very strongly in 2010, with the main engine for growth being the Chinese market as well as a strong recovery in the US.

1. Sales in the Global Art Market 2003-2012



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[1] All data and statistics on the global art market are taken from Arts Economics (2013) TEFAF Art Market Report 2013. TEFAF: Helvoirt.

You can get a very clear indication of the strong polarization of the market that has occurred over the last few years by looking at the situation of different dealers. If you ask a dealer at the high end in New York for example, they will claim that business has never been better, but in contrast, a small dealer maybe here in Spain or in another small country in Europe will complain that they are really struggling to bounce back from the problems experienced in the market in 2009.

So the last year has been marked by a combination of mixed fortunes, with some parts of the market faring significantly better than others.

Focusing on the positive trends over the last year, fine art has been the segment where the highest sales values and prices were achieved. One of the highlights was the Edvard Munch painting (*The Scream*) which was sold at a Sotheby's auction last year for 120 € million. But there were many other examples of paintings by artists such as Mark Rothko, Roy Lichtenstein, Andy Warhol and Francis Bacon, all of which sold in New York for over 40 € million.

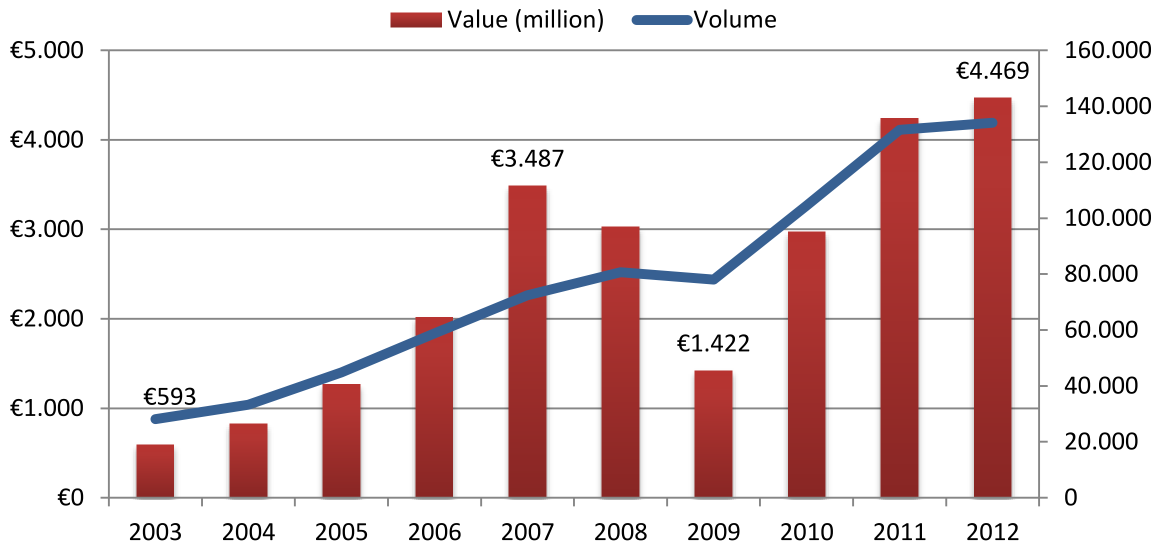
Art market activity has focused on the largest art market centres, particularly New York and most of the highest prices have been in the post-war and contemporary sector.

The global economic turmoil and political uncertainty, have created great volatility in the market, and have also driven to collectors to buy what we can call "blue chip" art works, which are those by the best known, lowest risk artists. These are safe, brand name, well-known artists, whose works can guarantee certain stability in value and prices.

Some sectors have been doing better than others, again with post war and contemporary leading the market. This sector represented about 43% of the fine art market in 2012 by value, and if you combine it with the modern sector, these two cover 75% of sales.

Looking at the pattern of sales in the post war and contemporary sector, it is nearly an exaggeration of the general performance of the market: with deeper contractions but much higher peaks. This is where these brand name artists are: the Lichtenstein´s, the Warhol's, and the Bacon´s.

2. Sales in the Global Post War and Contemporary Sector



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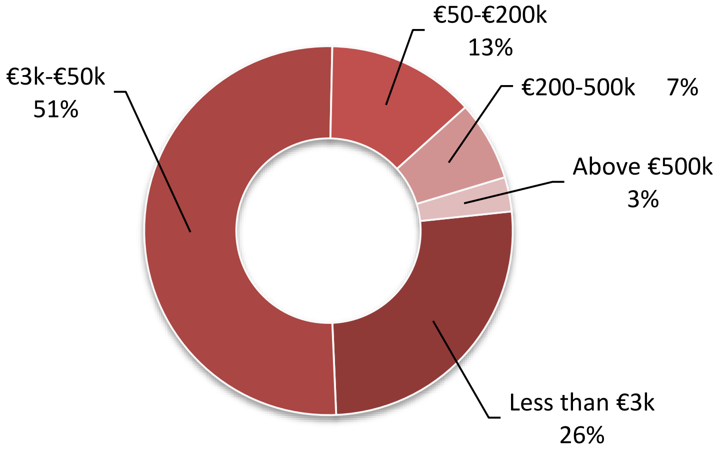
The modern art segment didn't have such a good year in 2012 contracting by 17% year-on-year, but it showed a similar pattern over the last few years of boom, contraction and recovery. This sector contains artists such as Giacometti and Picasso, whose works not only achieve high prices, but who were also quite prolific and have kept this sector very active.

The Old Masters segment is one of the smallest segments of the art market, in terms of both value and volume of sales, and also fell in value by 21% over 2012. At the high end, sales in the market are thin, so there´s not that many works turning over on the market. Chinese Old Masters are included in the general definition here, therefore, the main reason for the decline over 2012, was a decline in some Chinese ink painting included in this sector. Sales of Old Master in the US and UK performed relatively well, but China is still the biggest selling centre for Old Master paintings (when defined by birth date of the artist regardless of nationality), with the UK in second place followed by the US.

An important point to note about the market is that because of its very polarized nature, the top end dominates in terms of value, however day-to-day, low priced transactions are the ones that produce the highest volume of purchases in the market. Let's analyse the figures in this respect.

In the dealers sectors in 2012, 77% of transactions were for less than 50,000 € and only 3% were at a level greater than 500,000€. This fact is even more amplified in the auction sector, in which 93% of all lots sold at auctions were for less than 50,000 €.

3. Share of the Volume of Transactions in the Dealer Sector in 2012



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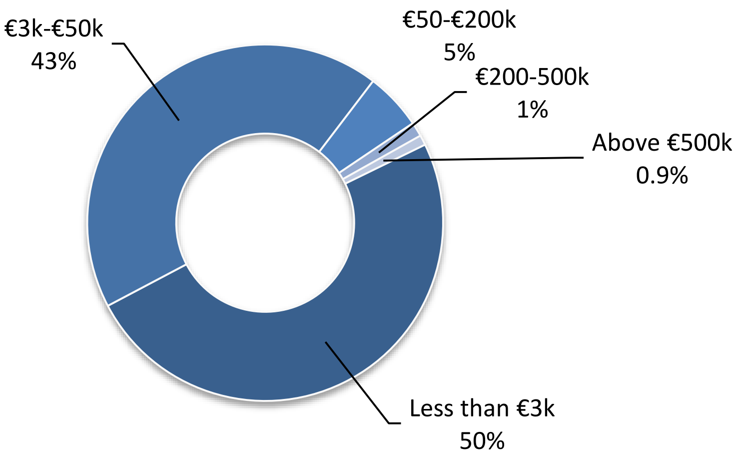
4. Share of the Volume of Transactions in the Fine Art Auction Sector in 2012



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And looking at value, 53% of the market comes from this segment that´s priced at over 500,000 €, even though it accounts for only 1% of the number of sales and only 1% of artists sell at this level, which is an important and growing market trend.

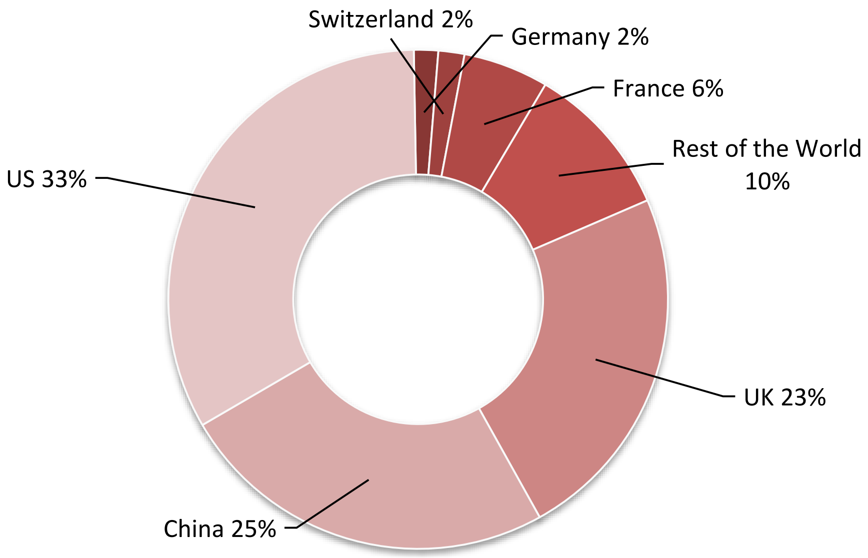
The consequences of this trend are that an elite group of artists has been created, the so called "superstar artists". However, this is not necessarily a positive thing, in my opinion, as everyone is buying the same artists and this simply reinforces the position of very well established names, and it makes it a more and more difficult for less established (but probably equally talented) names to enter the market.

It has also made it difficult (particularly for dealers) to source this elite group of artists who are in high demand. However, some dealers have reported that as they still need new things to bring to fairs and produce new things to sell, they have been forced to go back to what some feel a dealer "should" be doing: supporting higher risk artists and taking a chance on less known names alongside their more successful artists.

Besides the mixed performance in sectors of the market, regions also performed very differently in 2012.

Among the poorer performers was China, which, after several years of phenomenal growth, suffered a 24% decline in sales. In Europe, aggregate sales declined by 3%, and many individual markets within it were either stagnant or contracted. Counterbalancing this poor performance, the US increased sales by 5% year-on-year.

5. Global Market Share 2012 (Auctions and Dealers)



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This mixed performance affected global market shares and the US once again took over its premier position as the number one ranking market. However, the wrangling for the top position has become less important. The most important fact over the last few years is that the monopoly of New York (or the duopoly of New York and London) is over. The Middle East, South America, and the South East Asian markets have produced a kind of a ready supply of new buyers in the market. However, China has not only produced new wealthy buyers, but has also spawned a large domestic marketplace. And it's the only one of these new emerging markets that has a big domestic sales base on the ground.

The growth in auction sales in China has been astonishing: from 2009 to 2011 there was a 350% increase in the size of the market, so despite the contraction in 2012, it has still been by far the fastest growing market. It is very interesting to observe in the Chinese auction market however that over half of the works that come onto the markets don't sell. What would be an explanation for this fact?

First of all there are quality issues: there are many works being put on to the auction market but a significant proportion of them are not of the best quality. Moreover, there are also possibly not enough buyers in China currently to support the volume of things that are coming on to the market. The Chinese market is also somewhat of a victim of its own success, with many copies and fakes being flooded on to the market as high prices and profits have been achieved on sales.

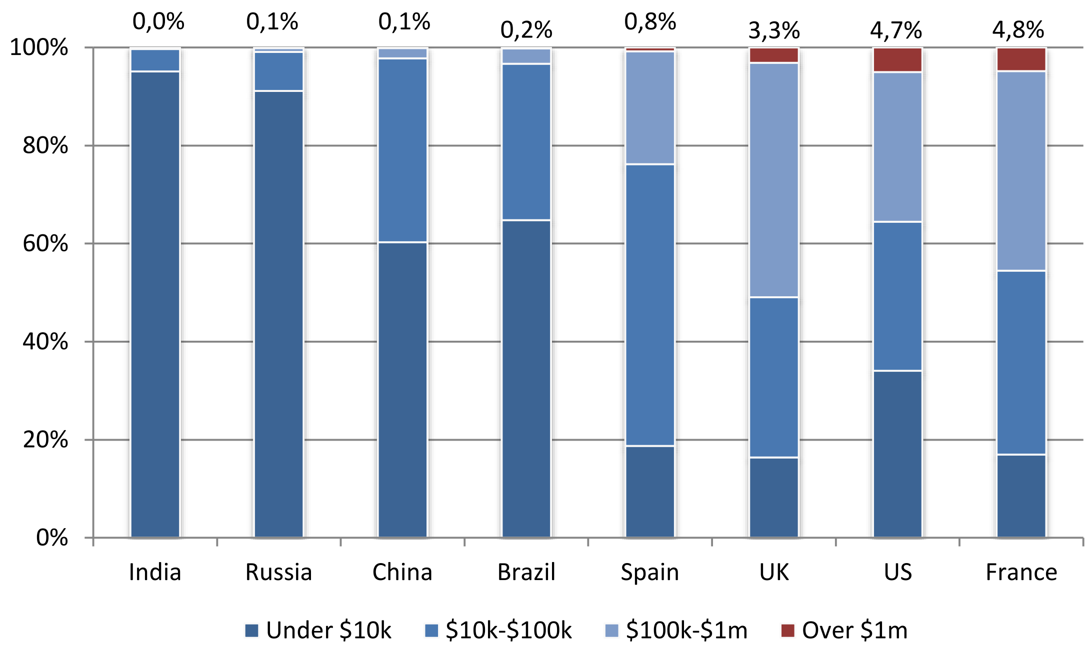
Looking at the contraction of the market in 2012, on the demand side, while still outpacing Europe, the Chinese economy didn't perform as well in 2012 as it has in previous years. Tightened monetary policy and credit restrictions filtered down to the art market. A number of art funds stopped buying in 2012 and some speculative investors also left the market, particularly as the government increasingly honed in on tax evasion and speculative practices.

Unlike some of the other emerging art markets, China is not just about wealthy buyers but also about a very healthy supply of works coming on to the market and it has a long cultural history and tradition of art. This means that there is a huge domestic market, even an over-supply in some sectors. On the supply side, the biggest sector by far in the Chinese auction market is Chinese ink painting and calligraphy, and this had a very substantial drop of over 40% in value during 2012

Despite the slowdown in 2012, the Chinese art market remains strong and the demand fundamentals remain positive as the population becomes wealthier and consumers continue to buy more luxury goods. There are a number of issues to be dealt with in the market going forward including its lack of international focus, the dominance of auctions, and insufficient support and ancillary services to the market in some areas compared to its mature art market counterparts.

BRIC economies have come into focus in the art market, although most still have very small fraction of their populations that are actually buying art or in a position to buy art. In the more established art markets there is a much higher segment of population in the wealthy and very wealthy segments. (Spain lies somewhere in the middle, but with a profile of a developed economy). In terms of wealth, strong middle to upper income levels are extremely important for the art market as it gives it depth and sustainability. This has been quite a problem here in Spain, where collecting is concentrated in a very small segment of the population. There are a relatively small number of collectors per head of population and, since the market doesn't host relevant international sales in Spain, the size of the market has therefore been poorly affected.

5. Wealth Distribution by Country in 2012



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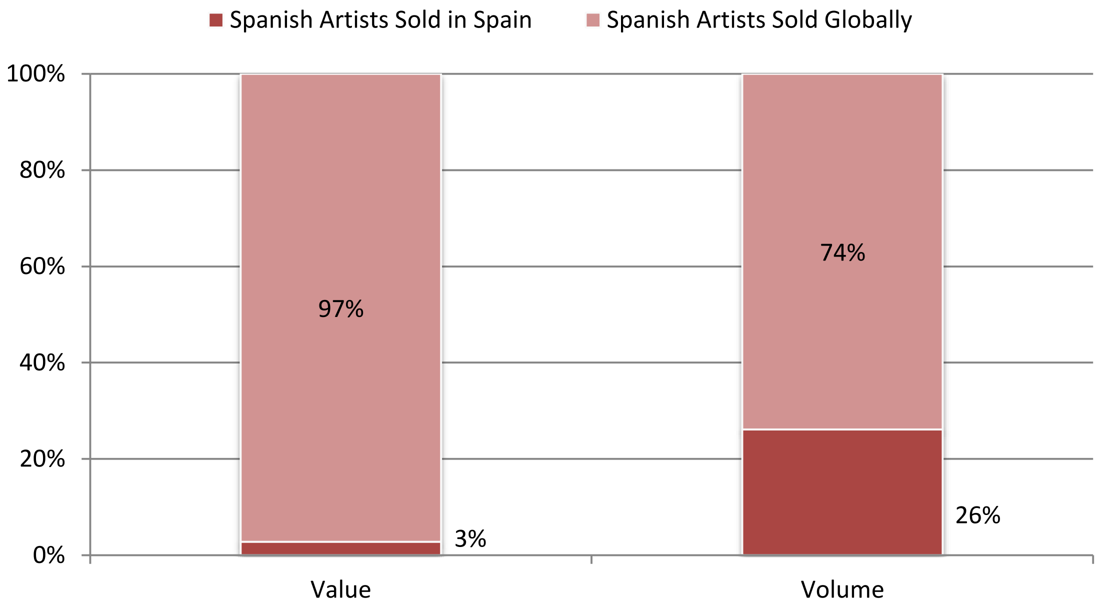
The Spanish art market, despite its small size, has performed reasonably well. The contraction in sales in Spain from 2007 to 2009 was deeper than the global market dropping about 44%. The market, like the global market, recovered a bit in 2010, but from that moment, fortunes diverged. The global market continued recovering in 2011 but Spain continued to go down and has also fallen in 2012, by about 4%.

Fine art dominates the market in Spain, accounting for about 70% of the market, which is possibly a good thing since fine art is doing well and has driven the recovery of the wider market. The dealer market share is also particularly high at about 75% by value versus auctions with 25%.
In Spain, much of the dynamism in the market has been in the contemporary sector, and particularly in the primary market. This is a lower priced market and prices in Spain are in general about 30% of the EU average.

In 2012 it was the same kind of picture with about 98% of everything sold at auction priced at less than 50,000€ and 95% for dealers. While the lower end accounts for the majority of the number of transactions in the global market also, in Spain it also accounts for the majority of its value.

The market is quite domestically focused which is a common thing in a lot of smaller art markets; they sell more Spanish artists than they do for example in the UK or in the US. But while Spanish artists dominate the market, the highest priced works by Spanish artists are still sold outside of Spain. The majority of the value (97%) of the works sold by Spanish artists were achieved outside Spain in 2012 and 74% by volume.

6. Spanish Artists: Value of Global versus National Auction Sales



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The examples below show the contrasting prices achieved locally versus in international markets for three well-known Spanish artists.

Top Picasso Lots : Spain v World 2012

Nature Morte Aux Tulipes
$37 million
Sotheby's NY Nov 2012

Vollard et son Chat
€10,000
Baiclis Barcelona Oct 2012

Femme Assise dans un Fauteuil
$26 million
Sotheby's NY May 2012

Colombe de la paix
€6,500
Sala Retiro Madrid July 2012

Top Tàpies Lots : Spain v World 2012

Relief Gris. No. V
€360,000
Christie's Paris
Jan 2012

Gris y Negro
€190,000
Sala Retiro, Madrid
March 2012

Triptyque
€350,000
Christie's Paris May 2012

Libre Sobre fons Negre
€77,000
Subastas Segre, Madrid
December 2012

Despite having these very well renowned artists, the market in Spain is small, given the size of its economy and size of the population. The big sales of art in Europe continue to take place in the UK. There are several historical, cultural, legal and tax-related reasons for that. As a consequence and for a number of other reasons, Spain has been recently moving down in the ranking tables in Europe.

As a conclusion, the art market as a whole is increasingly tied to what's going on in the economy. It is worth noting that having wealthy people and a high share of millionaires, doesn´t guarantee a mature and deep art market. Having a lot of disposable money is the first step but a lot of the people with high incomes are still buying in the traditional international marketplaces, London, New York, and Hong Kong. There are various reasons why these markets remain market leaders: highly developed infrastructures, expertise, institutions, and all the ancillary services to support the trade. Those features are not created over night.

However, new markets arise, and even though these old centres shall remain very active, more centres shall arise in the close future. Spain is unfortunately in a very lagging position: resale royalties, VAT and other regulatory issues from Europe also do little to help its position. Europe has become a costly place to do business. Why do business there? Why don't just do it in the US where it´s easier, since art works are very global and portable assets. This is a problem for the whole of Europe plus Spain is caught in this middle to lower end, which has had the most problems struggling to recover from the recession.

CLARE McANDREW

Dr. Clare McAndrew is a cultural economist, investment analyst and author. She founded Arts Economics in 2005. Arts Economics is a research and consulting firm focused exclusively on the art economy. The company carries out bespoke research and analysis on all aspects of the fine and decorative art market for private and institutional clients.

She completed her PhD in economics at Trinity College Dublin in 2001, where she also lectured and taught economics for four years. She then directed a number of research projects for the Arts Council England on the effects of regulation, taxation and other issues in the visual arts market. In 2002, she joined US firm Kusin & Company, a boutique investment banking firm specializing in art investment, as chief economist. After three years in the US, McAndrew returned to Europe in 2005, and continued her work in the art market in a private research and consulting capacity for a global client base.

Dr. McAndrew set up Arts Economics to focus her efforts on art market research and analysis, and works with a network of private consultants and academic scholars in providing research and consulting services to the global art trade and financial sector. Her recent clients include Christie's, Sotheby's, TEFAF, Frieze, CINOA, BAMF, Morgan Stanley, Bain and Company, Apax partners and a number of other private clients and institutions.

Recent projects include a review of the impact of VAT on the European art market, studying the impact of artists' resale royalties on the EU and global trade, and reviewing the appropriate valuation methodologies for art valuation for estate and gift taxes.

She has published widely on the economics of the art market, including her most recent book entitled *Fine Art and High Finance*, published by Bloomberg Press. She also publishes an annual macro-economic report on the global art market for The European Fine Art Foundation (TEFAF).

McAndrew is a guest lecturer on the Master Program at Trinity College Dublin in the Trinity Irish Art Research Centre (TRIAC) and lectures regularly on art investment, risk and regulatory and taxation issues in the art market at Christie's Education and the Sotheby's Institute in London.

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