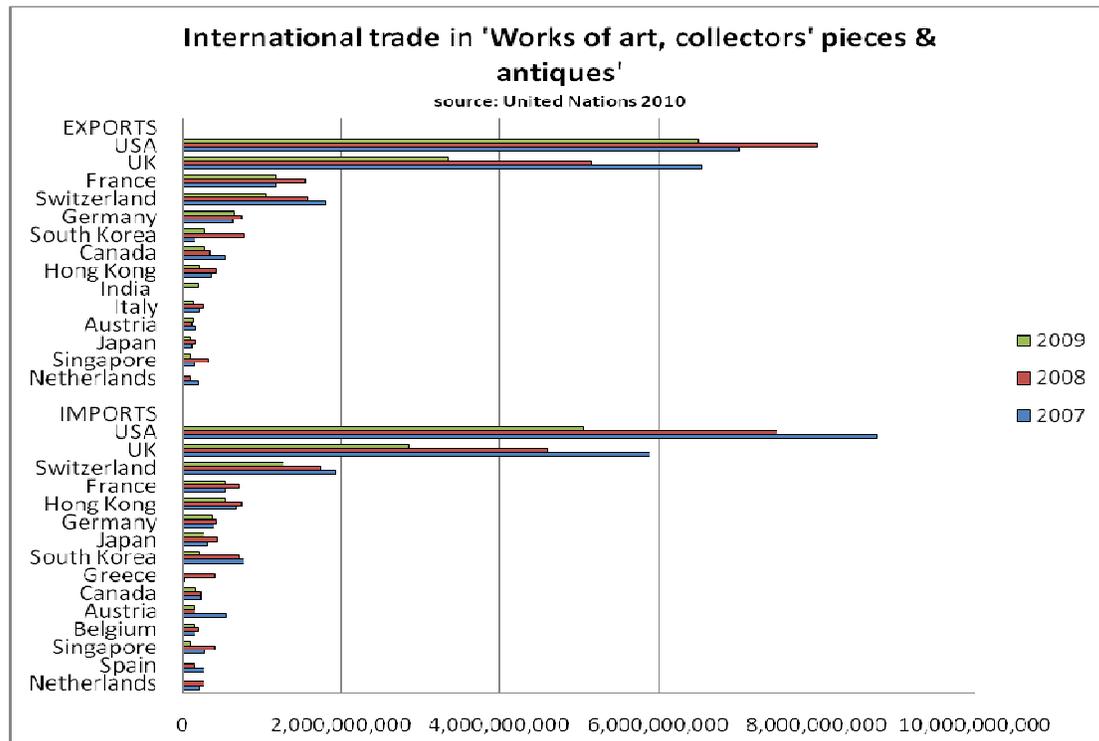


Locus Capital Art Advisory (LCAA) - Art Market Commentary

'A thing of beauty is a joy for ever: Its loveliness increases; it will never pass into nothingness'
John Keats (1795-1821), English poet

Beauty and novelty are always in style but are now also in fashion. Many of the world's great writers and philosophers have returned to the subject of aesthetics, as though it belonged to a forgotten age now ripe for resurrection. While the media's thirst for anything new is being inspired by the economic and cultural engagement of developed and developing countries.

In the art market the opportunity to buy the beautiful and unfamiliar has never been greater as more art and collectables become available for international trade. This is alongside the investment opportunity presented by a developed art market that turned from boom to bust but is now showing signs of recovery.



In recent years the international art market has spread beyond the main centres of the USA and the UK to lesser known markets – see graph. This has helped the world art market withstand the recession mostly affecting western economies with trade remaining above its 45 year trend.

After reaching its zenith in September 2008, prices of art sold at auction in New York fell by 23% in 2009, according to the Mei & Moses repeat sales data. By the same measure, auction prices fell by 65% in the last art market recession of 1990-95. The art market, which is loosely correlated with the property market, tends to fall 1-2 years after a major stock market fall anticipating an economic downturn. Conversely, it tends to outperform other assets during the consumption phase of a business cycle otherwise indicated by high growth and inflation. In the year to October 2010 the index has grown by 8.2% with post war and contemporary art prices expanding by 31.7%. However, recovery is not consistent. An internet based confidence index shows a decline since mid November 2010.

Looking ahead, economic development (and stagnation) and cultural fusion (and strife) are now providing the conditions for artists, buyers and sellers everywhere. Art buying opportunities seem more likely from countries with good economic growth prospects and recognisable international cultures, and art neglected by fashion or discounted heavily in the wake of the financial crisis.

Historically, countries have tended to buy their own art at home and then abroad before buying foreign art leading to a taste for the international avant garde.

Evidence to date in the auction market is for art mainly from developing regions such as Latin America, especially in the 1990s, and during the last decade countries such as China, Russia and India, now joined by African and Indonesian art. Chief among these is China which for a number of years has been buying back its older art from abroad. This year Chinese modern and contemporary art also holds many of the world record prices in those categories. Some developed countries such as Norway, Germany, Switzerland and Canada, have art markets that may benefit from their international trade competitiveness. In the majority of developed countries, the financial crisis, now affecting the government sector, and the passing of a generation after 2020, seem likely to bring many artworks back onto the market. According to some theories declining economies can also be a source of the most inspiring new art.

In support of these developments, the major auction houses trade about 20 art categories, such as painting, furniture or jewellery, from 30 nations in ten locations worldwide. The number of highly rated art fairs exhibiting works from the world's major dealers has grown to over 150 including twelve from emerging countries. Underlying this, more people are visiting museums than ever before with the numbers attending individual exhibitions in some emerging country capitals equalling those in more established cities of culture. For a glimpse of the future, in ageing Japan exhibition attendance is consistently the highest worldwide.

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