Art Markets During Wars and Recessions

Or

Can Rembrandt Get You Through Wars and Recessions

This fall, the $500 million art auction market is full of uncertainty. In addition to the terrorist attacks on September 11 and the current fighting in Afghanistan, art collectors are also concerned about the impact of a slowing economy and a drawn out period of armed conflict on the world art market. By looking at wars and economic recessions of the past, we can draw some conclusions about how art prices may behave in a future of war and recession.

Using Business Cycles dates from the National Bureau of Economic Research and the Mei/Moses Art index, we have found several interesting price patterns. First, while there tends to be a flight to safety away from the art market, producing a decline in art prices, the impact of recessions tend to be short-term. While several recessions did cause large price declines, such as those in 1973-75 and 1990-91, the declines did not happen until the second year of the recession and they were followed by robust recovery after the recession. On average, art prices have decreased on average 0.7% during the past 27 recessions over the 1875-2000 period. Second, art prices are unpredictable even in the midst of a recession. While art prices generally tend to fall during a recession, this is not always the case. For example, there were no decreases in the overall art price index in the recessions of 1960-61,1980, and 1981-82. Third, the average appreciation of art prices was 7.7% over the 1875-2000 period, outpacing inflation by 4.9% compared to an inflation beating real return of 6.6% by the S&P 500. Thus, art seems to be a good long-term store of value in addition to the aesthetic pleasure enjoyed by its collectors.

During the armed conflicts of lengthy duration of the last century art indexes out-performed major stock indexes. Using the data available from Global Financial Data (www.globalfindata.com) and the Mei/Moses Art Index, (www.meimosesfineartindex.org) the following comparison can be made.

During the extended World War One period, between 1913 and1920, London stock prices as reported by the Financial Times All Shares Index reached a wartime low in 1918 losing about 25% of its 1913 value over the period. The index then rose slowly reaching only 94% of the 1913 value by the start of 1920. In the United States the S&P 500 reached a wartime low in 1918, having lost 26% of its 1913 value. The S&P 500 then rose to 94% of its 1913 value by the start of 1920. In contrast, the Mei/Moses Art Index declined only 34% between 1913 and 1915 then rose to 125% of its 1913 value at the start of 1920.

During the extended World War Two period, from 1937 to 1946, London stock prices as given by the Financial Times All Shares Index declined steadily from 1937 until mid 1940 losing about 50% of its

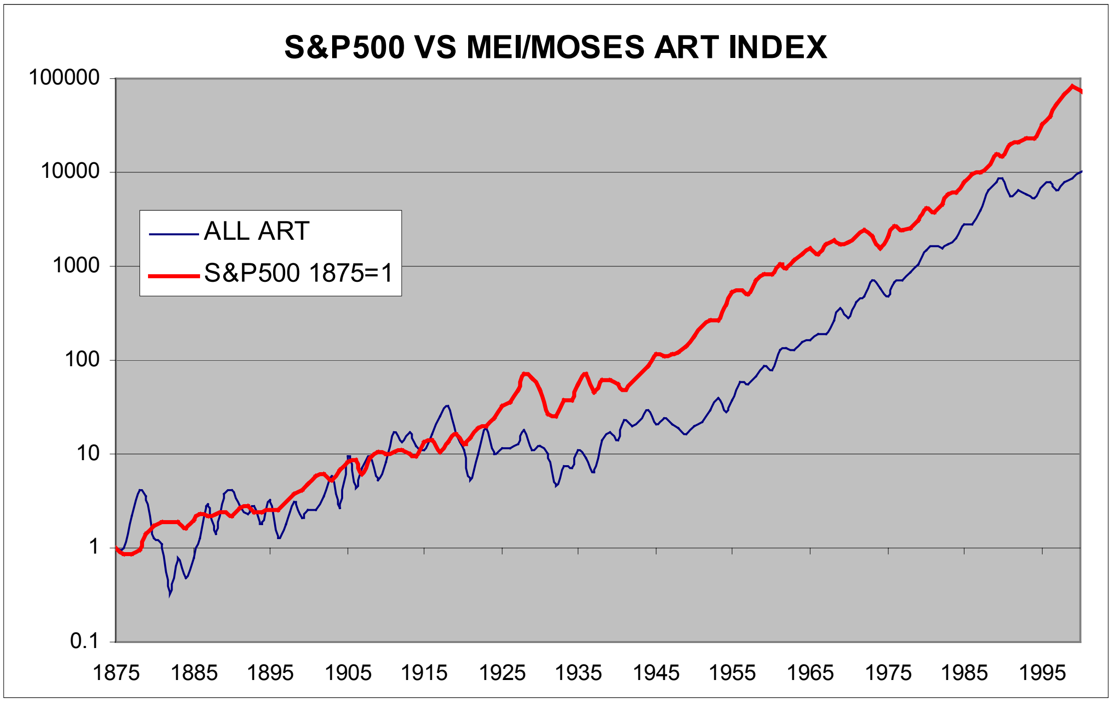
1937 value. It then rose and exceeded the 1937 value in mid 1944 and continued to rise to 107% of its 1937 value by 1946. In the United States, the S&P 500 declined rapidly from its 1937 value and had fallen almost 50% by early 1938. It reached its war time low by the spring of 1942. It then grew steadily and slightly passed its 1937 value in early 1946. In contrast, the Mei/Moses Art Index increased from its 1937 value by almost 88% by the end of 1939, and finished at 130% of its 1937 value by the start of 1946.

During the Korean War period (1949-1954) the S&P 500 grew steadily so that its value at the start of 1954 had increased 67% over its 1949 value. The Mei/Moses Art Index also increased during this period. At the start of 1954 it was 108% higher than its 1949 value.

During the extended Vietnam War period (1966-1975) the S&P 500 cycled around its initial 1966 value. It reached a wartime low in 1975 dropping by 27% of its 1966 value. The Mei/Moses Art Index however grows almost continuously throughout this period with two intermediate declines of 20% in 1970 and 1974. The index level in 1975 is 256% higher than its value in 1966.

Thus in three of the most recent periods of extended armed conflict, art has out performed stocks and during the other period its performance was on a par with stocks. This is not a total surprise since American and Impressionist Paintings have outperformed the S&P for most of the 2^{nd} half of the 20^{th} century.

The above price patterns may give some guidance to art investors. First, it might be unproductive to attempt to time the market, since one can hardly predict wars and business cycles as well as the art market. Second, while art prices tend to be quite volatile during wars and recessions, they also tend to be good long-term investment. Third, if price falls substantially during a recession, these declines may present bargain-hunting opportunities for the long-term collector. Fourth, art provides good diversification benefits due to the fact that it is not perfectly correlated with stock market movement during periods of market stress.


S&P500 VS MEI/MOSES ART INDEX
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