The 10 Most Important Takeaways from the 2016 TEFAF Art Market Report

ARTSY EDITORIAL
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The European Fine Art Foundation (TEFAF) released the 2016 edition of its annual report on the state of the art market on Wednesday. Compiled once again by cultural economist Dr. Clare McAndrew, the report confirms suspicions of a downturn in the international art market. But it also identifies positive indicators for certain sub-sectors of the market. Here are the 10 things you need to know.

Art Basel, 2015. Photo by Alec Bastian for Artsy.

In 2015, the art market contracted for the first time since 2011.

38.1 million, a 2% contraction. This will come as little surprise to anyone who has been watching headlines in recent months—in the art press, the pervading narrative has been one of a slowdown in the art market. Data began to trickle in to confirm this in recent weeks, as Sotheby's reported a fourth quarter loss of $11.2 million and predicted a significant drop in sales in the first half of 2016 compared to last year. Meanwhile, a downturn in the macroeconomy—especially in key emerging markets like China and Brazil, which began to play out in the second half of last year—has led to jitters about the overall business climate in 2016. Though some headlines might suggest the art market is crumbling before our eyes, one would be advised to take pause. The rocket ship grown in the art market was not sustainable. Cyclical contractions are natural, healthy even, for both the global economy and the art market alike.

The U.S. market, however, bucked the trend, growing by 4% and establishing an even more dominant position on the global market.

$27.3 billion-worth of art was sold in the U.S. last year, a 4% increase over 2014. That is a smaller increase than the 10% year-over-year growth that was recorded from 2013 to 2014, but amid a landscape in which sales in every other major market center declined, the U.S. market is arguably at its most dominant global position in history. It was responsible for a 43% share of total sales of art by value in 2015, which is more than double the share of its next-biggest rival, the U.K., where sales contracted by 9% to $13.5 billion for a 21% stake in the global art trade.

China's art market contracted by 23% in 2015.

The U.K. firmly became the second biggest art-market center last year thanks to a staggering decline in sales in China. Previously the world's second largest market for art, China experienced a 23% decline in art sales in 2015, dropping to $11.8 billion. Its share of the global market declined by 3%, from 22% to 19%. The Chinese art market had contracted by 0.05% in 2014, a year which also marked the country's slowest year of economic growth of the previous 24. Last year was worse, with estimates ranging from the officially reported 7% to as low as 1%. Trading on the Shanghai stock exchange was suspended multiple times throughout the year, when multiple sell-offs resulted in declines of the exchange's value within a single trading session over the allowed threshold. Meanwhile, president Xi Jinping increased crackdowns on so-called elegant bribery, in which luxury goods and artworks are used to curry favor with officials, in perhaps the most significant blow to the mainland's middle market.

The top 1% and 0.01% of the market wielded

overwhelming influence over market health as a whole.

The art market got increasingly top-heavy in 2015, with 57% of all auction sales coming from works sold for over $1 million. That's 9% more than the 48% of auction value derived from seven figure-plus works (measured in euros) in 2014, and it represents less than 1% of all transactions. Works over $10 million represented 28% of the total value generated from sales in 2015. That ultra-high-end segment of the market was the only value segment to grow in 2015—it was up 19%—thanks in no small part to several record-breaking sales. Picasso's *Les Femmes d'Alger (Version 'O')* (1955) sold for $179 million at Christie's New York in May to break the auction record for any painting and Modigliani's *Nu Couché* (1917-18) sold for $170.4 million from Christie's November sale.

As a result, modern art outperformed other market sectors.

While modern art is the second most popular market segment, representing 30% of all works sold in 2015, it outperformed its competitors, only falling by 1% in overall value, to $4.5 billion. That value was more concentrated—20% fewer works were sold in 2015—but this jibes with past performance during economic contractions. Post-war and contemporary artworks saw record growth during the boom times, thanks to, among other things, a trend of new collectors speculating on young painters in hopes of achieving a high return. But as jitters hit the global economy, the world's wealthy tend to turn towards alternative assets that are seen as more consistent stores of value, modern artworks being prime among them.

Post-war and contemporary art dominated sales—kind of.

Nearly half of all value generated from the sale of art in 2015—46%, down 2% from 2014—was from the post-war and contemporary art sector. Those sales represented 41% of the total volume of works sold last year. The post-war and contemporary art auction sales results are particularly interesting. A 14% drop was registered in auction sales, with $6.8 billion in post-war and contemporary artworks sold. That value was derived from 20% fewer lots than the year previous as well. While there are certainly numerous contributing factors to this decline, it could suggest that the fervent speculative interest in young painters has diminished and that the owners of those works, when trading them, are doing so privately. Dealers do not want similar works by young artists selling at auction for less than the previous high price. And thus, for contemporary art, the gallery backroom likely trumped the saleroom last year.

The story was a little more complicated with Old Masters.

Fighting the general trend, 4% more works by Old Masters sold at auction in 2015 than in 2014. However, the sector also saw the steepest decline in value, at 33%. That can likely be mapped to a continued generational trend away from the sector. The report cites "particularly strong" private sales of Old Masters in 2015, speaking to the continued discretion of the collectors of these works.

Amid overall market contraction, the online market expanded.

Across the entire art market, perhaps the most encouraging data point is that of the online art market, which grew by a significant 7% for a total $4.7 billion in trade during 2015. Sales of art online now represent 7% of the overall value of art sales, up 1% from last year. There are several possible conclusions: A greater number of existing collectors are buying art online or are buying more expensive works online, and/or new collectors and art buyers are entering the market through these less intimidating and more seamless marketplaces. Data suggests it's some combination of the two.

Dealers continued to sell more than auction houses, but sales made at fairs remained flat.

Sales made on the auction house floor accounted for 47% of total value generated in the art market in 2015. All other sales—private sales conducted by auction houses as well as sales by galleries and dealers—made up the remaining 53%. Those numbers are more or less on par with the previous year, despite auction houses citing the private sales side of their business as an increasingly key site for future growth. For galleries, fair sales contributed to a steady 40% of their total revenue, a figure that suggests any lagging sales reported at fairs this year and last are a function of macroeconomic shifts, rather than any decreased interest from collectors in engaging in art fairs.

Dealers' and auction houses' expenses increased in 2015.

Across the art trade, dealers and auction houses spent 3% more on so-called supportive services ($17.8 billion) to conduct business last year. A portion of that can be attributed to inflation, one would assume. But it also raises an interesting question: How much more would have to be spent in order to keep the art market stable if the economy declines?

—Alexander Forbes