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DATA DIVE **WITH** NIK NANOS

LINGERING EFFECTS

We are now better understanding the fallout from the pandemic both in terms of economic and mental health

OPINION

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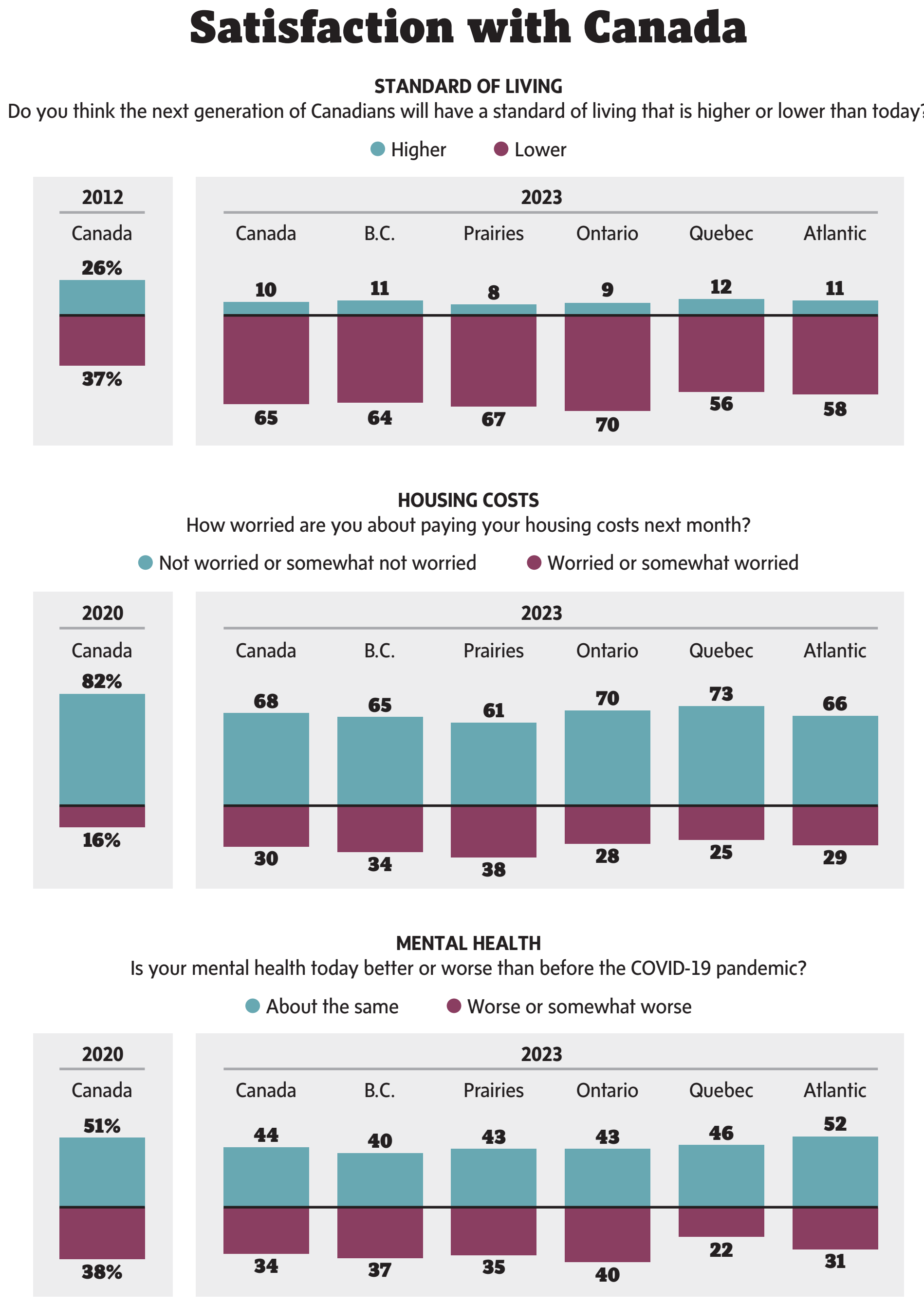

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A scarred generation. That's how the future will describe the cohort of people in the health, service, retail and hospitality industries who were on the pandemic front lines. This is akin to the folks that bore the brunt of the Great Depression. Lives were disrupted, personal values were challenged, and what emerged was a hard-nosed questioning of self and society.

We are now better understanding the fallout from the pandemic both in terms of economic and mental health.

We have been tracking views on the future standard of living for more than a decade and they are more negative than ever today. Back in 2012, 37 per cent of Canadians felt that the next generation would have a lower standard of living than what we have now; this has increased to a whopping 65 per cent of respondents. Only one in 10 people believe the standard of living will be higher than it is today, compared with 26 per cent more than a decade ago. What were tepid numbers a decade ago are very worrisome today.

There exists a difference of opinion between the two largest provinces. Seven of 10 Ontarians think the standard of living will be lower in the future compared with 56 per cent of Quebeckers. Women and men have similar views on the future, but there is also a noticeable generational difference. Middle-aged people are more negative (70 per cent) compared with those older than 55 (61 per cent).

More significantly, three of 10 Canadians are worried or somewhat worried about paying for housing next month. This is higher than the numbers in 2020 during the height of the pandemic, when 16 per cent were worried or somewhat worried. Concern about paying for housing rises to 38 per cent of individuals under 35 years of age.

A year ago, almost one-half of Canadians (48 per cent) said inflation wasn't a major problem. Those reporting that it is not a major problem has declined to 40 per cent, and a majority of Canadians said they have cancelled a major purchase and/or said they are having difficulty paying for necessities.

How about our mental health? Sure, it's better when compared with the pandemic, but we are not out of the woods by any stretch. Nanos tracking reveals one in three Canadians (34 per cent) say their mental health is still worse or somewhat worse than before the pandemic. Generationally, Canadians under the age of 35 are more likely to report worse or somewhat worse mental health (42 per cent) than those over 55 years of age (27 per cent). And about one in five Canadians have been in a situation where a family member, friend, acquaintance or health care professional has expressed concern to them about their personal state of mental health.

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On a more positive note, for the first time since the pandemic began, there has been a noticeable shift in alcohol consumption. Canadians are reporting that they are consuming less (20 per cent) rather than more (13 per cent) alcohol. This is a reversal from the reported consumption during the pandemic in 2020.

What does this all mean? For things within the control of Canadians, things are still difficult, but they are improving. There has been incremental betterment when it comes to mental health, but it is still an issue for many.

For things outside of the control of Canadians, such as the consequences of inflation, things are getting worse. People are more pessimistic about their future standard of living than they have been in more than a decade. Many Canadians, and especially young people, are struggling to pay for housing and basic necessities.

The twist is that some economic indicators suggest that things are getting better. According to the most recent federal budget, "unemployment remains near its record low … and Canada's economic growth was the strongest in the G7 in the past year." The same budget, however, also asserts that many face housing and food affordability challenges.

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First, young people may very well become more frugal than their big-spending baby boomer parents. Although dreams of home ownership, nice vacations and an improving standard of living remain, expectations will be lower.

Second, if mental health was on the radar before the pandemic, it is now at the very centre of many Canadians' lives. The good news is that Canadians are engaged and some are reporting improvement in their mental health; 21 per cent of respondents say their mental health is better, or somewhat better, than it was before the pandemic.

As a country, we have moved beyond lockdowns and stringent public-health measures. But the effects of the pandemic will stay with us for many years to come.

What the art market can tell us about the economy, and the fortunes of the superrich

R. JAMES BREIDING ZURICH

OPINION

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Billionaires are not accustomed to waiting in line, especially not in scorching heat. But Art Basel, the world's most influential art fair, often triggers a feeding frenzy at 11 a.m. on opening day as the most substantial and eager buyers vie to purchase rare works or discover an elusive piece missing from their collections. This year's edition, recently concluded, featured 284 galleries from 36 countries showing works by 3,200 contemporary artists.

The Sotheby's Mei Moses Index, the most authoritative measure of art prices, has increased eightfold over the past five decades since Art Basel was launched in 1970. In 2017, Saudi Crown Prince Mohammed bin Salman made global headlines by paying US$450-million for Leonardo da Vinci's *Salvator Mundi*, the most expensive painting ever sold.

The law of supply and demand suggests that art prices should continue to increase. On the supply side, the fact that most of the world's pre-eminent artists are dead and that museums and long-term collectors acquire the finest artworks means that the available stock is constantly shrinking. Moreover, each artwork is essentially a monopoly, owing to its inherent uniqueness.

On the demand side, owning a prized piece by a renowned artist has become the ultimate status symbol. After all, purchasing a Patek Philippe watch, a Bentley or even a swanky Hamptons estate is nothing compared with buying a Picasso. By spending $100-million on a painting, collectors are signalling their ability to devote a colossal sum of money to an object that will never generate dividends or rent. Their pleasure is complete when a rival buys a piece off them at a higher price.

But there are signs that the market may be turning. Since the 2008 financial crisis, Art Basel has become a leading indicator of the state of the superrich and, consequently, of rising global wealth inequality. As billionaires' fortunes grew by more than 380 per cent since 2009, art sales have surged as well, with sales exceeding US$10-million increasing by nearly 700 per cent.

Just over a decade ago, Benjamin Mandel, then an economist at the Federal Reserve Bank of New York, began studying the art market. Initially, he thought that the market was expanding at an unsustainable pace, because prices were growing faster than global GDP. But, having dug deeper, Mr. Mandel determined that the art market does not reflect the state of the broader global economy, only part of it. Simply put, it is a market created by and for the superrich, and billionaires are driven by different rules than the rest of the world.

Mr. Mandel's logic was straightforward. With the population of ultrawealthy buyers and their fortunes growing much faster than the available supply, the art market mirrors the increase in wealth inequality. With this in mind, it is hardly surprising that some of the world's most prominent collectors are also some of its wealthiest investors, such as Citadel chief executive Ken Griffin, TPG founding partner David Bonderman and Point72 CEO Steve Cohen.

> The art market is notoriously illiquid. Given that a handful of remote buyers set the prices, contractions tend to be sharp and abrupt. The same collectors who were eager to buy when prices were rising are suddenly reluctant to bid when prices are falling.

But recent trends have called into question Mr. Mandel's thesis. Despite the surge in the number of billionaires, art purchases and prices have plateaued. The prevailing mood at this year's Art Basel was one of anxiety, as dealers roamed the halls searching for answers. Some speculate that the state of the art market indicates declining confidence among the world's richest people. When the economy is booming, collectors are more inclined to invest in art and take on leverage, especially when borrowing costs are low. But these dynamics can shift quickly during downturns. The 2008 crisis, for example, caused art prices to fall by 60 per cent.

The art market is notoriously illiquid. Given that a handful of remote buyers set the prices, contractions tend to be sharp and abrupt. The same collectors who were eager to buy when prices were rising are suddenly reluctant to bid when prices are falling. The art market crash of the early 1990s, which was preceded by the stock market crash of 1987 and the collapse of the Japanese asset-price bubble, is a case in point.

Rising prices require the entry of new buyers, leading some established dealers to worry that the market has reached the point of exhaustion. This is not due to a lack of effort. The global gallery Gagosian has expanded to 21 locations, and rival Hauser & Wirth has 18 spaces, including remote lifestyle facilities in Somerset and Menorca designed to lure wealthy collectors. Both galleries employ large sales teams and actively promote their artists. But potential new clients travel less and are more costly to acquire. Meanwhile, the Chinese, historically significant marginal buyers, have retrenched amid a shift toward deglobalization.

Investors tend to construct reassuring narratives such as "the Powell pivot" and the "Greenspan put." As the Nobel laureate economist Robert J. Shiller observed, market prices are often influenced by such narratives and can diverge significantly from fundamental values, giving rise to speculative bubbles.

Assessing the fundamental value of art, however, presents a unique challenge, as it does not generate dividends and lacks functional utility. So, participants find themselves placing too much weight on price trends. Rising prices, as Dr. Shiller suggested, can fuel positive sentiment and create a self-reinforcing cycle that contributes to the formation of speculative bubbles. Others, however, argue that the true value of art is not financial but "positional" – in other words, it confers status.

To be sure, status is subjective. During Art Basel's first VIP day, for example, Hauser & Wirth proudly announced the sale of Louise Bourgeois's bronze sculpture *Spider IV* for US$22.5-million. For some, paying millions of dollars for an ominous metal spider suggests wealth and sophisticated taste. For others, it is as gauche as wearing a Louis Vuitton T-shirt or paying for a Twitter blue checkmark. Rather than signifying status, it may imply impressionability and insecurity.