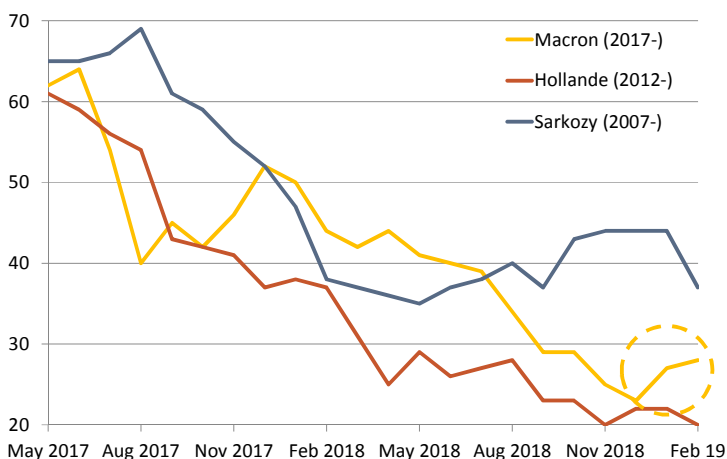




22 February 2019

France: Macron seems to be turning the tide

Popularity ratings for French presidents after taking office



Popularity rating for President Macron since May 2017; for Hollande and Sarkozy, the chart gives their popularity ratings at the same stage of their terms. Source: Ifop

- Still heading for a golden decade:** Emmanuel Macron can reform France, like Margaret Thatcher cured the UK in the 1980s and Gerhard Schröder changed Germany some 15 years ago. As a result, France may be heading for a golden decade. Over time, a reinvigorated France can help to ease many tensions within the Eurozone that have stemmed from the gap between weaker and stronger countries. This has been our key long-term call for continental Europe for almost two years. The “yellow vest” protests are putting this call to its sternest test yet.
- Bottoming out?** After winning the 2017 elections on a wave of optimism, Macron has suffered the fate of his predecessors. Shortly after taking office, popularity slumps. However, the worst may be over now. Macron’s approval rating rebounded from the low of 23% in December to 28% in February – see chart. As the yellow vests have become more radical, they have lost some public support. Macron’s fiscal sweeteners offered in response to the protests are starting to play out. His new dialogue with citizens also seems to be bearing fruit.
- A less bad Q1:** Although disruptions from the yellow vest protests pushed French consumer confidence to a four-year low in December, GDP still expanded by 0.3% qoq in Q4. A lessening of the yellow vest disturbances has contributed to a rebound in consumer confidence in January and a rise in the French purchasing managers’ index in February due to stronger domestically orientated services. The 8% fall in French pump prices from their peak in October 2018 and a fiscal stimulus of around 0.6ppt of GDP this year are starting to support domestic demand. Although French industry cannot decouple from the global manufacturing downturn, the easing of the drag from social unrest poses an upside risk to our call of just 0.1% qoq growth in French GDP in Q1.
- Risks to 2019 outlook close to balanced:** If, and when, global risks ease, the French economy can return to growth rates around its trend of 0.4% qoq. We expect this to happen no later than Q3. Rising employment will make it easier for Macron to continue his reform agenda despite some domestic opposition – tackling skill mismatches in the labour market and overhauling the highly inefficient pension system. France is the only major country in Europe for which the risks to our call for growth in 2019 (1.1%) are not clearly tilted to the downside.
- Advantage over other leaders:** What if the global risks (trade wars, China, hard Brexit) do not fade at least somewhat this spring and the cyclical downturn goes from bad to worse as a result? Even in such a case, Macron would probably not turn into a lame duck or be seriously at risk. He enjoys one advantage over his predecessors and other European leaders: he is backed by a party he founded himself. His party has no alternative to him and his policies. Macron can thus stay unpopular for longer than others and still make progress.
- Optimistic about the long-term outlook:** No reform drive is perfect, but it does not have to be. As long as France does not roll back its pro-growth labour market, social and education reforms, it can afford the fiscal sweeteners Macron handed out in late 2018. If Macron builds even modestly on his recent reforms, he can achieve the critical mass of changes needed to raise France’s growth potential – and improve his re-election hopes for 2022.

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