

Macron: The hard work's just begun

The French President appears to be stumbling after just two months in power.



President of France

The real test

Emmanuel Macron is losing popularity and is facing discontent inside his own party after only two months as French President. The most important chapters of his promised reforms are being written. The way he faces up to opposition to those fundamental changes will be the real test of his power. If he chooses to procrastinate, as his predecessor did, the same fate could await him. If he decides to be particularly authoritative within his party, which was built on consensus, he's also likely to come unstuck. Macron offered a new roadmap for France. Now he has to find his way.

Fading popularity

Only a few weeks after entering the Elysée Palace, President Macron is already losing ground in the polls. Only 54% of French people were satisfied with him in July compared with 64% in June. The last President to have seen such a dramatic drop was Jacques Chirac after his first election in 1995. The problem for Mr Macron is that instead of the "Jupiterian" Presidency he promised, leaving most initiatives to his Prime Minister, he has been omnipresent.

From Merkel to Rhianna, Macron has been omnipresent on the

world stage.

He's met world leaders at a breath-taking pace, even inviting Donald Trump for Bastille Day celebrations. While that international push is to be welcomed, not least for improving relations with Germany which should bolster future Eurozone resilience, Mr Macron's meddling in fiscal policy has created a degree of confusion.

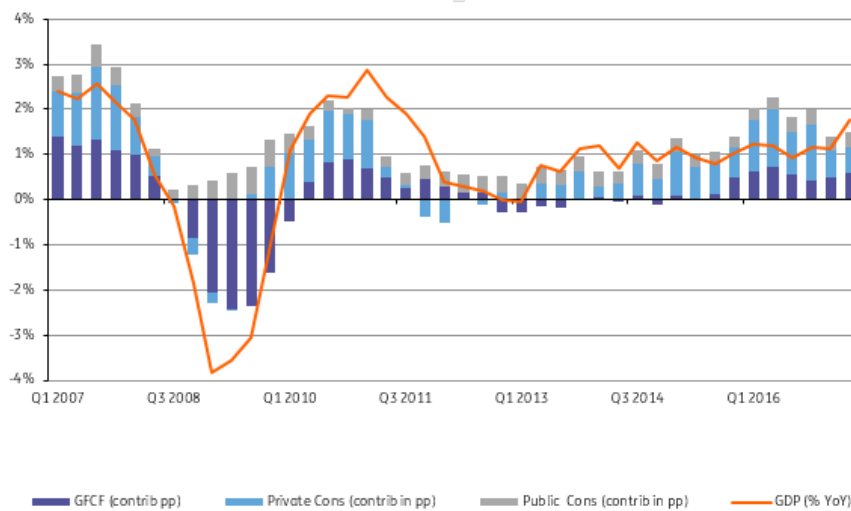
Three areas of opposition

We see three areas where Macron faces the greatest opposition. And this is also where he's made the boldest promises:

- **The 2018 budget**
 - The budget will have to be voted on in September. For now, it contains a reduction of the corporate tax towards 28% in 2020 and 25% in 2022 while a property-related tax will be reduced over three years. This particular measure has been at the centre of Mr Macron's campaign but is bitterly disputed by local authorities who raise and spend the money. Spending cuts, notably in universities and the army, have already claimed a victim in the form of the Head of the French armed forces who quit and prompted a short political crisis. This is very much a 'work in progress'.
- **Labour market reform**
 - This will comprise of several executive orders which will be worked on during the summer and finalised by 28 August. A milestone will be the definition of a rule to define severance payments, for which an agreement does seem achievable. But don't rule out street protests after the summer.
- **The moralisation law**
 - This is a drive to clean up politics, not least after scandals hit his election rivals such as Francois Fillon. However, it appears some of his party's deputies voted for an amendment against their own government; clearly, Macron is not going to have everything his own way.

Business confidence

Most confidence indicators show the current French recovery is gathering pace



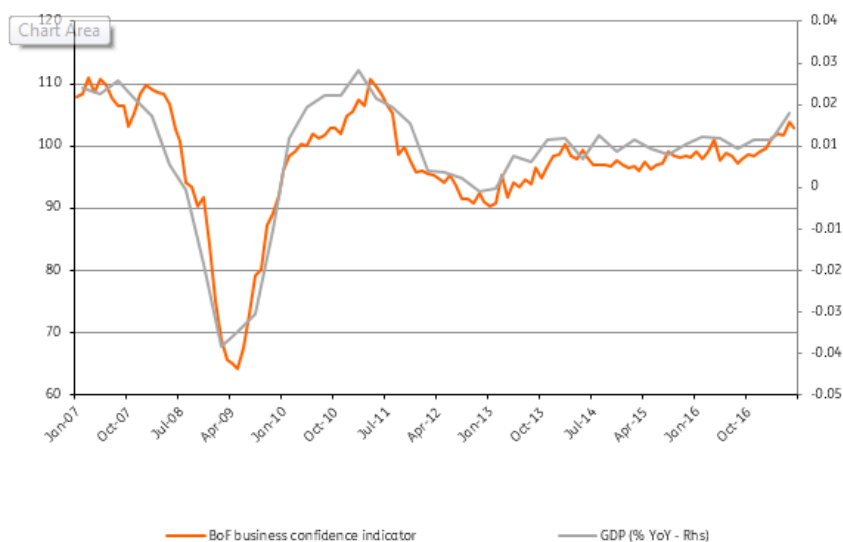
French GDP grew 0.5% in Q2.

Business confidence holding up

Macron does appear to have an upswing in the economy on his side and most indicators show the recovery is accelerating. Business confidence rebounded strongly in May and June in all sectors. Manufacturing and construction are leading the way, but confidence in services is still on par with levels last seen in 2011. For the first time, order books are as full as just before the global financial crisis and we're seeing an uptick in hiring intentions. This could continue to help the growth in employment levels that we've seen since 2016. But we must urge caution with these figures as hiring intentions in the service sector dropped in June and the trend in the important economic indicator, the PMI, is already weakening. Business optimism about reforms will have to be supported by government actions. At least for now, business appears to be giving the Prime Minister, Edouard Philippe, the benefit of the doubt.

French GDP

French GDP grew 0.5% in Q2



Most confidence indicators show the French recovery is gathering pace

Growth figures are encouraging

French GDP grew by 0.5% Quarter-on-Quarter in 2017, but domestic demand remains weak. Growth mainly came from net exports. This external trade contribution (+0.8pp, the biggest since 2010) is unlikely to be repeated in the second half of the year if the euro continues to appreciate against the US dollar. A pickup in domestic demand is needed to support growth and the government needs to play its part here. French growth, having slowed from 1.2% in 2015 to 1.1% in 2016, is set to rebound to 1.5% in 2017. If the new administration can profit from the accelerating recovery to implement reforms, GDP could move towards 1.8% in 2018. This would help to compensate the effects of spending cuts and would increase the chances of France finally exiting measures aimed at reducing the deficit.