

What France's Covid health pass means for Macron

France is stepping up the fight against the Delta variant in the hope of preserving the economic recovery. GDP growth in the second quarter was 0.9%. This is a bold move from President Macron with uncertain political benefits, as protests against the health pass gain momentum



French President
Emmanuel Macron

Source: Shutterstock

0.9% GDP growth
2Q 2021

Higher than expected

An extended health pass vs. Delta variant

After a marathon debate, the French parliament has ratified a watered-down version of President Emmanuel Macron's proposed law to make Covid-19 vaccination compulsory for healthcare workers and to require a "health pass" to enter public places such as restaurants and bars.

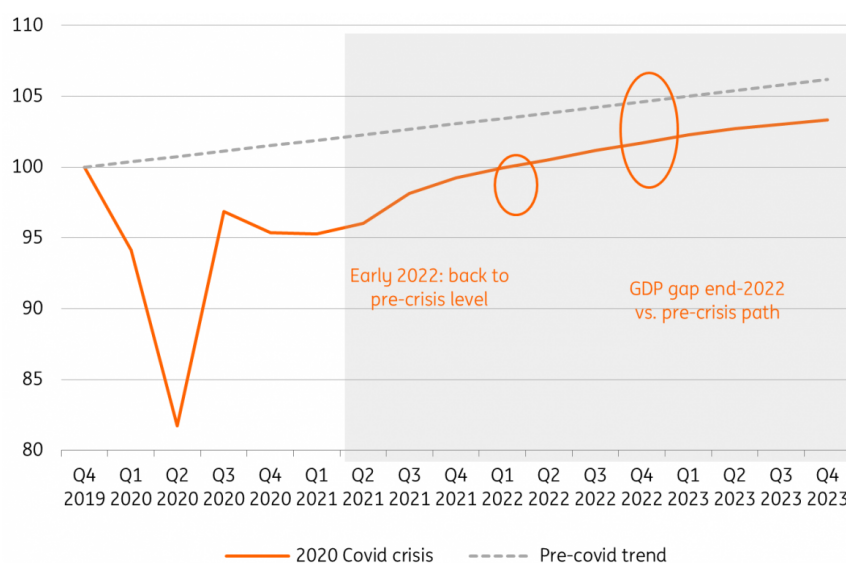
A fourth wave of the pandemic in the autumn is coming into view

With a more than 150% increase in daily cases from the more contagious Delta variant in just one week, a fourth wave of the pandemic in the autumn is coming into view. And that is pushing the government to take restrictive measures, particularly to preserve the economic recovery. Tourist areas, especially the coast and the Paris region, are particularly affected by the increase in cases of Covid-19 infection.

The contours of the recovery are becoming clearer

These new health restrictions come at a pivotal moment for the French economy. According to INSEE's first estimate, GDP growth in the second quarter came in at 0.9%, confirming the recovery. French GDP is still below its pre-crisis level by more than 3% although we expect it to catch up by early 2022. However, the crisis will leave some scars; by the end of 2022, our forecast suggests that the economy will still be smaller in size compared to the pre-crisis trend path.

French recovery path: GDP expected to be back at pre-crisis level by early 2022 but a gap will remain with pre-crisis growth trend



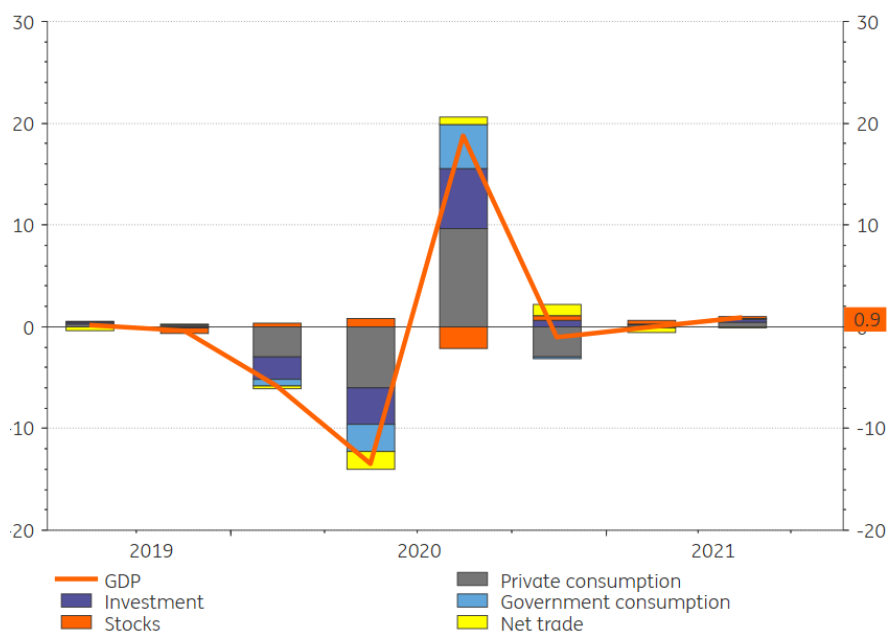
Source: Refinitiv, ING

The soft data throughout the second quarter suggested a recovery in consumption and business investment. Household sentiment in June reached its highest level since the beginning of the crisis, while business sentiment was at a 15-year high. This was despite three months of fluctuating activity, marked first by the health restrictions in April and then by the lifting of restrictions in mid-May.

Since then, the rebound in activity has gained momentum. This has been driven by the 0.9% QoQ recovery in household consumption following the mid-May easing, thanks to the more than

€150 billion in extra savings accumulated since the beginning of the health crisis. On the corporate side, investment rose by 1.1% over the quarter, but this remains partially constrained by strong sectoral disparities and international supply bottlenecks. For example, the shortage of electronic chips weighed heavily on automobile production in the second quarter and thus constrained investment in manufacturing.

Contributions to French GDP growth (quarterly percentage points)



Source: Refinitiv, ING

Unsurprisingly, the services sector, which is more affected by the health restrictions, rebounded significantly in the second quarter. Industry and construction have continued to recover, although uncertainty continues to weigh on activity, most notably the difficulties in sourcing inputs and recruiting skilled labour. Further signs that the recovery is gathering pace are that the number of fully unemployed people fell significantly by 1.3% in the second quarter (excluding Mayotte) and recruitment rose by 16.9% in the second quarter, an all-time high.

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In terms of tourism, it is still early to draw conclusions from the summer season, but tourism professionals and anecdotal evidence already point to an overall positive outcome. Occupancy rates for certain types of accommodation such as campsites or Gîtes de France are at their highest. But tourist workers fear that new health restrictions could slow down activity, especially in August once the health pass comes into force or local restrictions are reinforced.

A political watershed?

If the figures are anything to go by, President Macron's gamble has already paid off as four million French people have made their vaccination appointments since the announcement, bringing the proportion of the population vaccinated (at least one shot) to nearly 60%. However, opposition to the health pass has spilled over from Parliament to the streets, with some denouncing the move as an "attack on freedom". Around 161,000 people demonstrated in France last weekend, 50,000 more than the week before. These are surprisingly high numbers in the middle of summer, even for France.

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How Macron will emerge from this politically is uncertain. Comparisons between the anti-pass movement and the Yellow Vest movement are tempting, if only because of their sociological similarity, the opinion they mobilise and their antagonism towards Macron. But the current anti-pass protests do not currently enjoy the same public goodwill as the Yellow Vests did (only 35% of French people show "total support" compared to around 70% at the time of the Yellow Vests) as public opinion largely approves of President Macron's proposals for new health measures. The evolution of public opinion on the protests and the practical implementation of the new restrictions will therefore be variables to watch in the coming weeks.

In the absence of any major reform, the last months of Emmanuel Macron as the French President will be key to renewing the narratives that got him elected in 2017: fostering investment, renewing the political landscape and pushing for EU reforms. These are themes that he will pursue to restore political capital, as the Covid-19 crisis has prevented him from fully achieving his reform agenda.

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