

## French business confidence soars

In France, business confidence remained at its highest level since 2011 in May at 104.7. The business sector remains supportive of the reforms proposed by President Macron.



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In May, business confidence remained at an elevated 104.7 (from 104.6 in April), its highest level since 2011. Mr Macron's victory (the perspective of which helped confidence improve already in April) did not trigger a second jump in confidence. Confidence was stable in the service sector and continued to increase slightly in the industry on the back of higher current production levels. The building sector is a particularly positive contributor to the current high confidence levels, propelled by a recovering housing market, low interest rates, and possibly by the intention of President Macron to scrap the households' habitation tax.

If this week-end's results are confirmed next Sunday, Mr Macron is set to have a strongly supportive National Assembly for the next five years. With more than 30% of votes on average, his candidates for the Assembly are well placed to win in the second round of the election on Sunday. The first round shows that the Socialist Party, who had the majority in the Assembly, should keep fewer than 30 seats from the 295 it had since 2012, losing 90% of them.

Mr Macron's party, LREM, together with the centrist Modem party should gather two third of the seats in all likelihood. However, as it is facing traditional right candidates in the second round in most circumscriptions, one cannot exclude a strong mobilization on the right. At the current stage, LR are also set to lose half of their 225 seats, but abstention was extremely high, at almost 52%. If traditional right voters mobilize themselves on Sunday, Mr Macron could get less than the announced 415 to 450 seats (out of 577). Mrs le Pen in the meantime is far from her initial target of more than 20 MP's as the FN will likely get 5 at most (from 2 in the last Assembly).

All in all, these results suggest that Mr Macron will get a stable governing majority for the next five years, but if abstention is not lower next Sunday, his legitimacy could be tarnished. It seems that the French look more resigned than really supportive of the proposed reforms. Such a result could however continue to boost business confidence in coming months and allow for some growth acceleration in the second half of the year. We expect French GDP growth to reach 1.4% this year, before accelerating to 1.7% in 2018