

Confidence Index

Q2
2018



In association with:



Freelancer confidence is rising despite day rate pressure and other threats

Freelancer Confidence Index:

5.3

(From -100 to +100)



Business cost

74%

of freelancers believe their costs will **increase in the next 12 months**



Demand for freelance work

Amount of time freelancers have been on assignment



Top factors lowering business performance in Q2 2018



Outcome of the EU referendum



Government's fiscal policy relating to freelancing



Government regulation relating to hiring freelancers

Over the last **12 months** freelancers have been on assignment for, on average, **79%** of the time

Defining freelance status

Freelancers are a sub-section of the wider self-employed workforce. For the purposes of this report, the category 'freelancer' includes the groups with the highest skill levels, the Standard Occupational Classification (SOC) Major Groups 1 - 3:

- **SOC1 - Managers, directors and senior officials:** Individuals who have a significant amount of knowledge and experience of the production processes and service requirements associated with the efficient functioning of organisations and businesses (e.g., managers and proprietors in agriculture related services; transport and logistics; and health and care services).
- **SOC2 - Professional occupations:** Individuals who have a degree or equivalent qualification, with some occupations requiring postgraduate qualifications and/or a formal period of experience-related training (e.g. professionals in science, research, engineering and technology; health; teaching and education; business, media and public service).
- **SOC3 - Associate professional and technical occupations:** Individuals who have a high-level vocational qualification, often involving a substantial period of full-time training or further study. Some additional task-related training is usually provided through a formal period of induction (e.g. health and social care associate professionals; protective service occupations; culture, media and sports occupations).

Executive Summary

Freelancer Business Confidence Index

- Freelancers' businesses confidence indices are returning positive values again with business performance expected to improve over the next 12 months.
- Brexit is back as the top constraint on business performance followed by Government taxation and regulatory policies relating to freelancing.
- Building a strong brand and reputation continues to feature as the main positive driver of business performance followed by innovation activity and growth of sectors conducive to freelancing.

Freelancer UK Economy Confidence Index

- The freelancer UK economy confidence index is still strongly negative with most freelancers expecting a decline in economic performance over the next 12 months.

Day Rates

- The recent trend of a decline in freelancers' day rates has resumed after a pause last quarter and day rates are now the second lowest on record. One has to go back to quarter one (Q1) 2015 to find lower rates.
- However, freelancers expect that their day rates will increase by 7.3 per cent over the next 12 months. This, however, will not be enough to overturn recent losses.

Capacity Utilisation

- Spare capacity increases slightly from 21 to 22 per cent since last quarter.

Quarterly Earnings

- Quarterly earnings have started to fall again after the sector had only just moved out of the recession of the second half of 2017.
- Freelancers' quarterly earnings now stand at £20,797 which is 12.3 per cent lower than last quarter.
- Nevertheless, they are still over twice the earnings of equivalent employees.

Freelancers' Business Costs

- Roughly three quarters of freelancers expect input prices to increase over the next 12 months.
- Freelancers forecast 13.7 per cent input price inflation for their businesses over the next 12 months which will be well in excess of the inflation rate for the UK economy.



Economist's Perspective

This quarter, freelancers' confidence in their own business performance has improved and is now positive non-zero rounded for the first time since Q1 2016. Rising from -3.9 in Q1 2018, this quarter it reached 5.3. This is despite a number of negative developments.

First of all, freelancers' day rates have dropped. In Q2 2018, their average day rates fell from £430 in Q1 2018 to £394 – a drop of 8.4 per cent. Average quarterly earnings have therefore dropped too – from £23,701 in Q1 2018 to £20,797.

With high inflation already taking its toll, this is a major blow for freelancers. And, although about six in ten freelancers (59 per cent) expect their day rates to increase over the next 12 months, the expected increase of 7.3 per cent is not enough to make up for the recent fall.

There is also the worry of rising business costs. Almost three quarters (74%) of freelancers expect their input costs to increase over the next 12 months. In fact, the expectation is that costs will rise by as much as 13.7 per cent – much more than the 2.4 per cent inflation across the UK economy.

Next, although freelancers' confidence in the overall economy has improved slightly on last quarter, it remains extremely low. This quarter, their confidence in the economy over the next 12 months rose from -33.9 in Q1 2018 to -33.1: an increase of just 0.8.

Of all the negative developments, this in particular should concern the Government. This is because freelancers – often hired as part of a new project or by start-ups – have an early insight into how much interest there is in investing in the UK, and have proven remarkably accurate predictors of overall economic performance.

Finally, freelancers also feel there are a number of factors holding their business performance back: first Brexit, followed by fiscal policy and Government regulation on hiring freelancers.

What this shows is that the Government's constant tinkering with tax rates and regulation is damaging freelancers. Whether it's the rollout of IR35 in the public sector, freezing the VAT registration rate or changing the Dividend Allowance a year after bringing it in, freelancers feel this constant changing of rules is damaging their business performance.

So why, despite all this, is freelancers' confidence in their businesses rising? Well, according to our data, some of the key factors boosting self-employed people's confidence in their businesses are: the strength of their brand in the market, increasing innovation in the services they offer to their clients and growth in the sectors they work in.

Freelancers are also well-known for their resilience and determination in the face of sometimes daunting odds. As IPSE's own report, *Working Well for Yourself*, has shown, self-employed people tend to see developing their skills and having a sense of purpose in their work as more important for their sense of career progression than increasing their pay. This concern with other matters may go some way to explaining their confidence despite financial pressure.

We must not forget environmental factors here either. One idea that might be at play is Keynes' theory of animal spirits – essentially that emotions guide human behaviour, which can then be measured by consumer confidence.

In comparison to Q1 2018, Q2 has produced much better weather, and for the football fans out there, it has produced a lot of entertainment.

The ONS released their data showing that economic growth had climbed in Q2 in comparison to Q1 and explained that this was in-part due to the improvements in weather, and thus consumption. This could also help explain some of the positivity among freelancers.

Overall though, one thing is clear: freelancers' confidence in their businesses is now remarkably high given the negative developments ranged against them. It may not prove unshakeable, however, if these forces are not addressed.



Freelancer Business Confidence Index

Freelancer business confidence seems to be slowly increasing. Following the results of the Brexit referendum, the freelancer business confidence index scores were strongly negative as freelancers predicted their business performance to worsen. These forecasts proved accurate as the freelancer sector suffered a recession in the second half of 2017 and after a brief improvement in the first quarter of this year, quarterly earnings have again declined in Q2 2018.

Day rates have fallen to their lowest levels since Q1 2015. However, freelancers now seem to think that at least over the next 12 months, the worst may be over for their business sector (but not the UK economy which we will observe later). The freelancer 3-month confidence index score has improved slightly from 6.1 last quarter to 8.4 in Q2

2018 (Table 1). While this is only a modest positive index score in favour of business performance improving over the next three months, it is still the highest 3-month business confidence index score since the outcome of the Brexit referendum when confidence initially plummeted.

However, it is notable that this increase in confidence is not entirely uniform but is driven by Standard Occupational Codes (SOC) 1 and 3 who return index scores with categorical expectations that business performance will improve (Table 1). SOC2 freelancers (professional occupations) actually expect their business performance to weaken (albeit by a tiny margin) over the next quarter – representing a decline in confidence from last quarter.

Table 1: Freelancer confidence indices for their businesses over the next three months

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2018	14.8	-0.8	12.0	8.4
Quarter 1: 2018	13.2	0.5	5.9	6.1
Quarter 4: 2017	10.0	-8.2	1.1	-0.1
Quarter 3: 2017	6.5	-3.8	6.5	2.8
Quarter 2: 2017	-11.4	-10.5	-14.3	-12.2

Freelancers were asked to identify their confidence levels for the future, relative to current performance in one of five categories: more confident, slightly more confident, as confident, slightly less confident, and a lot less confident. The confidence index was created by scoring each of the five answers with 100, 50, 0, -50 and -100 respectively, and then taking the weighted average score for the sample. The weighted average is based on the relative proportion of freelancers in the labour market in 2017.

The freelancer business confidence index for the next 12 months manifests a more clear-cut change returning a first non-negative or rounded non-zero score in over two years (since Q1 2016). The index now stands at a value of 5.3 which shows that a modest increase in business performance is expected over the next 12 months (Table 2). This result is driven by an even more stark divergence of expectations between SOC2 freelancers from those of SOC1 and SOC3.

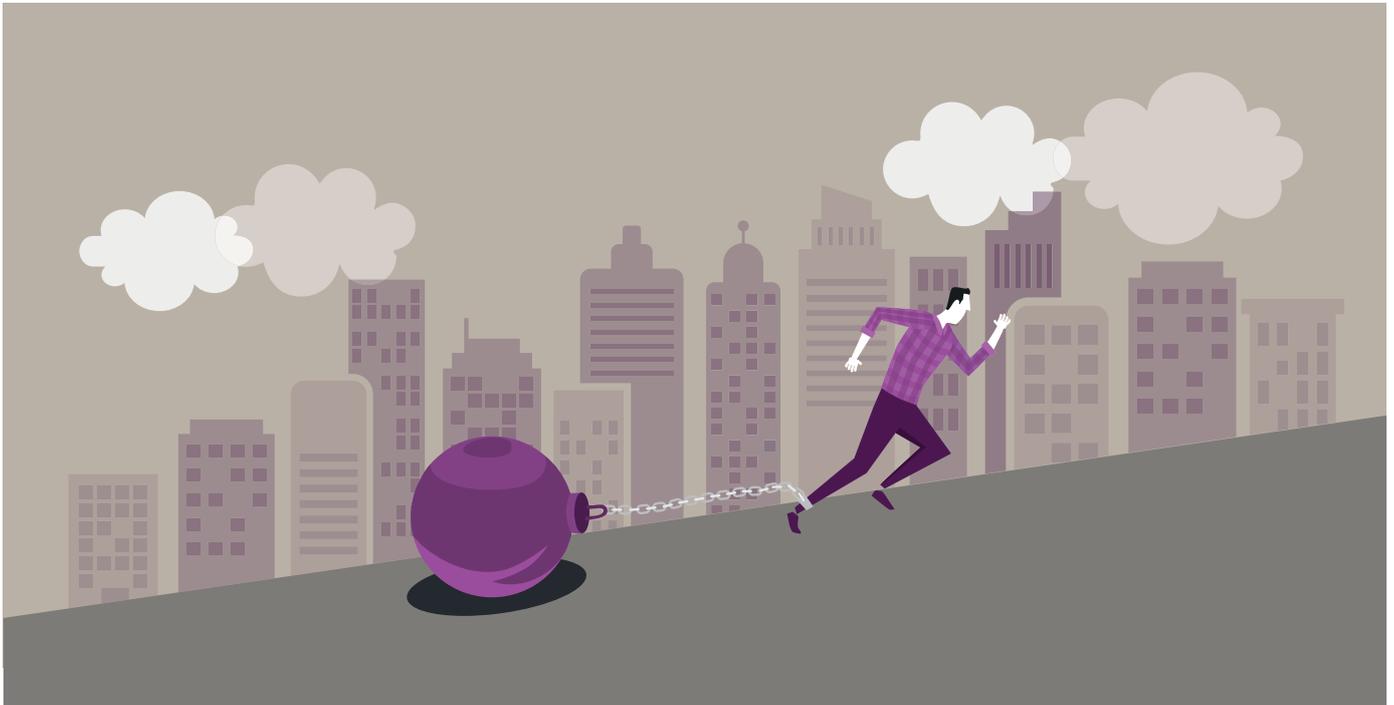
SOC2 freelancers expect business performance to decline with a score of -14.4 and indeed are even less confident

than last quarter where the equivalent score was -13.7. By contrast both SOC1 and SOC3 freelancers expect their business performance to increase and by comfortable margins in each case - with a 12-month business confidence index score of 17.6 for SOC1 and 13.8 for SOC3. If these forecasts prove to be as accurate as they have been in the past, then one can expect a divergence in performance across the freelance business sector. With this in mind, it is now interesting to explore any divergences in the positive and negative factors affecting the different occupational sectors of freelancers.

Table 2: Freelancer confidence indices for their businesses over the next 12 months

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2018	17.6	-14.4	13.8	5.3
Quarter 1: 2018	-2.6	-13.7	3.7	-3.9
Quarter 4: 2017	3.8	-20.9	-0.8	-7.0
Quarter 3: 2017	-15.4	-17.6	4.0	-8.6
Quarter 2: 2017	-25.0	-24.2	-26.4	-25.3

Freelancers were asked to identify their confidence levels for future relative to current performance in one of five categories comprising: more confident, slightly more confident, as confident, slightly less confident, and a lot less confident. The confidence index is created by scoring each of five answers with 100, 50, 0, -50 and -100 respectively and then taking the weighted average score for the sample. The weighted average is based on the relative number of freelancers in the labour market in 2017.



Factors Affecting Business Performance

There is in fact a great degree of variation in the factors positively affecting business performance across the three freelancer SOC groups and indeed, less so among the negative factors. The main culprit in terms of the lack of confidence among SOC2 freelancers is Government policy as all the top three negative factors for this group are Government policies (Table 3).

The main detrimental factor is taxation policy relating to freelancers followed by regulatory policy. Therefore, concerns over areas such as IR35 or VAT and the continued bias in favour of promoting employment at the expense of solo self-employment in the labour market are major constraints on freelancers from professional occupations. The third most detrimental factor for this group is the commitment to leave the EU. It is notable that this is exactly the same order of negative factors that was reported by SOC2 freelancers in the Confidence Index report last quarter.

By contrast, SOC3 associate professional and technical freelancers seem less affected by Government policy. While they cite the commitment to leave the EU as the top negative factor, it is followed by competition from other freelancers and the change in the value of Sterling as second and third most important negative factors respectively.

Again, it is notable that this is exactly the same order of negative factors listed by SOC3 freelancers last quarter. We have noted in earlier reports that this group appears to be more affected by international competition from other freelancers which is consistent with their list of top three negative factors.

SOC1 freelancers who undertake senior management roles cite the outcome from the EU referendum, regulation and taxation policy as the top three negative factors impacting their businesses. It is notable that Brexit which was not among their top three factors last quarter is now listed as the top most negative influence on business performance for this freelancer occupational group.

Combining the factors for all three SOC groups and weighting them accordingly to their relative size in the labour market gives an overall outcome where the influence of Government policy dominates. The top negative factor is the outcome of the EU referendum followed by fiscal policy and regulation respectively. As we have noted in previous reports, this pattern means that the Government has scope to positively impact the performance of the freelance sector if it chooses to alter these policy positions.

Table 3: Top factors that lower freelancers' business performance

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	Outcome of the EU referendum (54.0%)	Government's fiscal policy relating to freelancing (74.2%)	Outcome of the EU referendum (56.0%)	Outcome of the EU referendum (56.1%)
2	Government regulation relating to hiring freelancers (49.0%)	Government regulation relating to hiring freelancers (69.7%)	Level of competition from other freelancers (55.1%)	Government's fiscal policy relating to freelancing (50.9%)
3	Government's fiscal policy relating to freelancing (48.9%)	Outcome of the EU referendum (57.9%)	Change in the value of UK Sterling exchange rate (45.3%)	Government regulation relating to hiring freelancers (46.9%)

Freelancers were asked to rate the importance of 15 different factors affecting the performance of their business in categories ranging from significantly positive and slightly positive, to no impact, slightly negative and significantly negative.

Last quarter's report noted that brand and reputation building was cited as the top factor enhancing freelancers' business performance across all freelancer groups. In Q2 2018, this still applies to SOC2 and SOC3, but SOC1 freelancers now believe that growth in their business sector is the main positive driver (Table 4). However, the value of brand and reputation is still the top positive factor affecting the freelance sector as a whole. Innovation in terms of service offering is the second most important factor and this is listed by all three SOC groups, being the second main factor for SOC3 and third most important positive factor for SOC1 and SOC2.

Growth of the sector in which freelancers work is the third most important positive factor cited in the survey. As already mentioned, this is the top factor for SOC1 and the second top factor for SOC2 freelancers. Only SOC3 freelancers

do not cite it but rather list targeting new markets among their top three positive factors affecting their business performance.

Therefore, the overall difference in the business confidence index score of SOC2 freelancers compared to SOC1 and SOC3 freelancers, seems to be related more to variation in the power of influence that each factor has on SOC2 compared to SOC1 and SOC3, rather than substantive differences in the types of factors that are influencing business confidence across these groups. In short, fiscal and regulatory policies seem to be hurting the businesses of the SOC2 freelancers much more than other freelancer groups - to the extent that benefits from brand, reputation and innovation are not able to overpower these negative influences in the way that they are for SOC1 and SOC3.

Table 4: Top factors enhancing freelancers' business performance

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	Growth of the sector in which I work (59.6%)	My brand value/reputation in the market (71.9%)	My brand value/reputation in the market (74.2%)	My brand value/reputation in the market (69.1%)
2	My brand value/reputation in the market (58.3%)	Growth of the sector in which I work (62.6%)	Innovation in terms of the services I offer clients (63.7%)	Innovation in terms of the services I offer clients (61.3%)
3	Innovation in terms of the services I offer clients (58.3%)	Innovation in terms of the services I offer clients (61.1%)	Targeting new markets (62.7%)	Growth of the sector in which I work (60.1%)

Freelancers were asked to rate the importance of 15 factors which can affect the performance of their business over the last three months in categories from significantly positive and slightly positive, to no impact, slightly negative and significantly negative.



Freelancer UK Economy Confidence Index

The main story in the Confidence Index reports over the last two years has been the great fall in freelancers' confidence in the UK economy since the announcement of the EU referendum result. Freelancers have accurately predicted that the UK economy would not perform as well after the vote in comparison to before it.

It was also noted before that freelancers in SOC1, SOC2 and SOC3 are in an advantageous position to predict economic performance because they are often hired for investment and innovation projects aimed at growing businesses. Both the nature of the project in which they are involved alongside the level of demand for their services gives them a very

good insight into the propensity of businesses, and hence the economy, to grow. Therefore, the fact that the results of the latest survey continue to show a deep lack of confidence in the UK economy is concerning.

Freelancers' confidence in the economy for the next three months has fallen since last quarter and now stands at -19.1 indicating that most freelancers expect Q3 this year not to perform as well as Q2 (Table 5). This view is shared by all the three SOC freelancer groups as they all return a more negative UK economy three-month outlook index score than last quarter.

Table 5: Freelancer confidence indices for the UK economy over the next three months

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2018	-11.1	-21.4	-22.8	-19.1
Quarter 1: 2018	-9.0	-16.5	-19.3	-15.5
Quarter 4: 2017	-18.3	-30.9	-28.7	-27.0
Quarter 3: 2017	-28.8	-21.7	-14.0	-20.4
Quarter 2: 2017	-37.0	-36.6	-29.7	-34.0

Freelancers were asked to rate their confidence for the future in one of five categories: more confident, slightly more confident, as confident, slightly less confident, and a lot less confident. The confidence index was created by scoring each of the five answers with 100, 50, 0, -50 and -100 respectively, and then taking the weighted average score for the sample. The weighted average is based on the relative number of freelancers in the labour market in 2017.

Freelancers' 12-month economic outlook has generally been much lower than their 3-month outlook since the advent of the EU referendum. This continues to be the case with the 12-month economic outlook index score almost unchanged from last quarter and returning as -33.1 this quarter (Table 6). In this realm freelancers clearly think that the UK economy will underperform current economic growth over the next 12 months which will also include the scheduled date for Brexit – 29 March 2019.

SOC 2 and SOC3 freelancers are the main drivers of this fall in confidence with their 12-month economic outlook index score falling to -37.2 and -36.0 respectively. SOC1 freelancers' confidence improves slightly from -39.7 to -24.1 but as there is still a strong negative score for all three occupational groups it is clear that there is an emphatic view that the UK economy will perform worse over the next 12 months than it did over the previous 12.

Table 6: Freelancer confidence indices for the UK economy over the next 12 months

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2018	-24.1	-37.2	-36.0	-33.1
Quarter 1: 2018	-39.7	-30.8	-32.5	-33.9
Quarter 4: 2017	-34.1	-46.0	-46.3	-43.3
Quarter 3: 2017	-38.5	-37.0	-30.0	-34.6
Quarter 2: 2017	-54.3	-50.7	-32.4	-44.4

Freelancers were asked to rate their confidence in the future of the UK economy in one of five categories: more confident, slightly more confident, as confident, slightly less confident, and a lot less confident. The confidence index was created by scoring each of the five answers with 100, 50, 0, -50 and -100 respectively, then taking the weighted average score for the sample. The weighted average is based on the relative number of freelancers in the labour market in 2017.



Freelancer Day Rates

In this quarterly survey we observe a considerable fall in day rates and freelancers actually losing all the gains made in the first quarter of this year, with rates now even lower than the final quarter of 2017 (Table 7). In fact, freelancer day rates have now reached their second lowest level since records began in Q4 2014. Only Q1 2015 returned lower day rates.

Freelancer day rates have fallen across all three SOC1, SOC2 and SOC3 groups. However, the biggest absolute

(in money terms) and percentage fall has been among SOC3 freelancers who experienced a £67 drop per day equivalent to a fall of 22 per cent in day rates. The weighted average day rate fell across all three occupational groups and amounts to a loss of £36 per day or a drop by 8.4 per cent. So by any measure, freelancers have suffered a tough second quarter of 2018 as a fall in day rates is in effect a fall in prices indicating weakening demand for freelancer services and/or rising competition in the freelance sector.

Table 7: Average day rates charged by freelancers over the last three months

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2018	£508	£486	£232	£394
Quarter 1: 2018	£542	£490	£299	£430
Quarter 4: 2017	£516	£493	£261	£407
Quarter 3: 2017	£591	£532	£387	£489
Quarter 2: 2017	£619	£542	£452	£525

The weighted average is based on the relative number of freelancers in the labour market in 2017.

The sample for Q4 2017, Q1 2018 and Q2 2018 includes a new contribution from People Per Hour freelancers. There has also been a noticeable variation in day rates and we will monitor it to determine whether this is a long-term trend.

While we have praised freelancers' ability to forecast the economy, most of the evidence indicates that they did not expect the discrete drop in day rates in Q2 2018. In fact, in the last quarterly survey report, over twice as many freelancers predicted a rise in day rates compared to those predicting a fall. Across the entire sample a net increase in day rates of 7.5 per cent was predicted.

It is notable that in the current quarter almost the same forecasts are returned again (Tables 8a,b). However, since the day rate is now 8.4 per cent lower than it was last quarter, the 7.3 per cent predicted growth relates to a much lower 12-month forecast (i.e. day rate of £423 is predicted this quarter in comparison with a forecast of £462 last quarter). Clearly, freelancers are factoring in the downgrade

of their day rate this quarter to have at least medium-term negative effects.

SOC2 freelancers predict a 3.3 per cent growth in day rates over the next 12 months (Table 8b). However, this will be enough to recover more than all of the losses they experienced in Q2 2018. SOC1 freelancers forecast 6.5 per cent increase in day rates over the next 12 months, which will almost recover the drop in day rates occurred this quarter as it will restore day rates to £541 (just £1 less than they were in Q1 2018 prior to the current drop). By contrast SOC3 freelancers who predict a much higher 11.4 per cent rise in day rates still expect their day rates to be lower in 12 months' time in comparison with the level they reached in the first quarter of the year.

Table 8a: Expected change to freelancer day rates over the next 12 months

	SOC 1	SOC 2	SOC 3	Weighted Average SOC1-3
Increase	55%	52%	69%	59%
No change	15%	16%	16%	16%
Decrease	30%	32%	15%	25%

The weighted average is based on the relative number of freelancers in the labour market in 2017.

Table 8b: Average freelancer day rate expected change over the next 12 months

	SOC 1	SOC 2	SOC 3	Weighted Average SOC1-3
Expected Change	6.5%	3.3%	11.4%	7.3%

The weighted average is based on the relative number of freelancers in the labour market in 2017.



Capacity Utilisation

Freelancer capacity utilisation is measured by the number of weeks without work per quarter out of a maximum of 13 weeks. This measure is used because freelancers may or may not choose to take holidays in any quarter depending on: the demand for projects in which they are engaged, the expected likelihood to secure future work and their own personal preferences.

Spare capacity is up from 2.7 to 2.8 weeks per quarter equivalent to a one percentage point rise from 21 per cent last quarter to 22 per cent in Q2 2018 (Table 9). With the exception of Q3 2016, freelancers have typically recorded spare capacity in the range 15 to 20 per cent prior to Q4 2017, meaning that the last three quarters have manifested a slight shift upwards in spare capacity. For example, the average spare capacity across the 12 months immediately prior to the last three quarters is just 18 per cent.

Therefore, freelancer capacity utilisation is manifesting a decline at the same time that day rates are falling. This

points towards a weakening in demand for freelancer services at the level of the business (i.e. at the level of the market this could also be caused by an increase in the supply of freelancers for any given level of market demand for their services). However, we don't want to overplay this result because if one allows 1.4 weeks for holiday per quarter (i.e. 6 weeks per year) then freelancer spare capacity is in fact very limited at just 1.3 weeks in the last quarter.

Freelancer occupational groups SOC1 and SOC2 are responsible for the marginal rise in spare capacity in the current quarter with the number of weeks not working increasing for these two groups. SOC3 freelancers experience a very slight fall in spare capacity by just half a day over the quarter. Overall, the outcome is a fairly modest rise in spare capacity among freelancers who typically have very little spare capacity (i.e. less than one and a half weeks when 1.5 weeks holiday per quarter are taken into consideration).

Table 9: Freelancers' spare capacity: Number of weeks not working per quarter

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2018	2.5	2.5	3.4	2.8
Quarter 1: 2018	2.1	2.3	3.5	2.7
Quarter 4: 2017	3.3	2.5	2.7	2.8
Quarter 3: 2017	3.3	2.9	1.8	2.6
Quarter 2: 2017	1.2	2.2	2.9	2.2

The weighted average is based on the relative number of freelancers in the labour market in 2017.



Quarterly Earnings

As freelancers have experienced both a fall in day rates and a fall in capacity utilisation over the last quarter it is perhaps of little surprise to learn that freelancer quarterly earnings have declined. Freelancers' quarterly earnings fell by 12.3 per cent from £23,701 last quarter to £20,797 in Q2 2018 (Table 10).

This is a very significant fall in quarterly earnings and so there can be no doubt that the freelance sector has suffered greatly from the slowdown in the UK economy alongside continued growth in the freelance labour force. However, there is still no cause for alarm because despite this significant fall in quarterly earnings, freelancers in

SOC1, SOC2 and SOC3 continue to earn substantially more – typically over double – than the earnings of equivalent employees.

While the fall in earnings this quarter is experienced by all three SOC groups it is not without a variation in its proportions. The greatest percentage fall is experienced by SOC3 freelancers who underwent a 21 per cent fall in quarterly earnings from £14,471 in the Q1 2018 to £11,459 this quarter. The greatest financial loss is suffered by SOC1 freelancers who see their earnings drop by £5,177 (-15%) while the least affected are SOC2 freelancers who experience a four per cent fall in quarterly earnings.

Table 10: Freelancers' average quarterly earnings

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2018	£28,332	£25,325	£11,459	£20,797
Quarter 1: 2018	£33,509	£26,254	£14,471	£23,701
Quarter 4: 2017	£25,281	£25,854	£13,809	£20,970
Quarter 3: 2017	£27,785	£26,701	£22,174	£25,179
Quarter 2: 2017	£36,733	£29,313	£23,583	£28,847
Quarterly equivalent employee earnings 2017 (ONS estimates*)	£12,505	£9,550	£8,330	£9,783

*Employee earnings are based on Office for National Statistics (ONS) data on gross weekly earnings by employees from the provisional 2017 Annual Survey of Hours and Earnings, October 2017, the revised 2016 Annual Survey of Hours and Earnings, October 2017 and the revised Annual Survey of Hours and Earnings, October 2016 respectively.

The weighted average is based on the relative size of freelancers in the labour market in 2017.



Freelancers' Business Costs

In the last few quarterly reports freelancers have been predicting ever increasing double digit input inflation for their business sector. This forecast inflation has risen from 10.3 per cent in Q4 2017, to 11.6 per cent last quarter to the latest quarter's forecast of 13.7 per cent for the next 12 months (Table 11b).

Roughly three quarters (74%) are expecting input prices to rise over the next 12 months compared to just seven per cent who expect them to fall (Table 11a). This pattern is fairly similar across all three SOC groups among SOC2 and SOC3 just nine per cent expect input prices to fall while among SOC1 no freelancers are predicting a decline in input process.

As we noted earlier, the expected input price inflation is also forecast to be very high at around 14 per cent which is nearly twice the rate at which day rates are expected to increase. Considering that input costs in the freelance sector are typically less than 20 per cent, one might conclude that it is unlikely to put much of a squeeze on profit margins. However,

since we noted earlier that freelancers' earnings have declined by 12.3 per cent this quarter, if the forecast proves accurate then combined they amount to a significant squeeze on freelancer net earnings.

Across different freelancer SOC groups, SOC1 freelancers are expecting the highest increase in input costs - 20 per cent over the next 12 months. SOC3 freelancers expect it to be around 13 per cent which is fairly close to the weighted average. SOC2 freelancers are the only group predicting single digit input price inflation at nine per cent. In sum, all freelancer occupational groups are expecting input price inflation of between approximately four and nine times the latest 2.4 per cent rate of inflation in the UK reported by Office of National Statistics. As inputs to freelancing are mostly non-freelancer specific and include many items in the consumer price index basket such as transport, telecommunications, IT, accommodation and subsistence expenditure, the high input price inflation forecast for the sector is likely an indication of wider inflationary pressure for the UK economy as a whole.

Table 11a: Freelancers' input cost change over the next 12 months

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Increased	78%	76%	70%	74%
No change	22%	15%	20%	19%
Decreased	0%	9%	9%	7%

The weighted average is based on the relative number of freelancers in the labour market in 2017. Because of rounded percentages, the total may not always be 100.

Table 11b: Freelancer input cost change over the next 12 months

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Expected Change	20.0%	9.3%	13.0%	13.7%

The weighted average is based on the relative number of freelancers in the labour market in 2017.

Summary

It has been a tough second quarter of 2018 for freelancers. Their quarterly earnings fell sharply by 12 per cent from last quarter. The drop is due to both a fall in day rates and capacity utilization indicating a freelancer market place more crowded than before relative to the demand for freelancer services. A small margin of freelancers now think that the next 12 months will fare a bit better with the 12-month business confidence index returning the first unambiguous positive values since just before the EU referendum.

This occurs despite the fact that freelancers overwhelmingly expect the UK economy to perform worse over the next 12 months than it did over the previous 12. Over the next year, freelancers expect their day rates to increase by 7.3 per cent but also predict their input costs to rise by 13.7 per cent indicating smaller percentage profit margins in the sector.

Regardless of whether freelancers' increase in business confidence is justified or not, all the data in the Confidence

The Sample

The quarterly Confidence Index report for Q2 2018 was compiled from 862 IPSE and PeoplePerHour (PPH) members who replied to an online survey. The survey is conducted every quarter. In Q2 2018, the survey composition of respondents was: 37 per cent female and 60 per cent male,

Index survey points towards very tough business environment over the next 12 months for both the freelance sector and indeed the UK economy as a whole. All the main factors constraining the sector are Government policies and in descending hierarchical order are: the commitment to Brexit, taxation policies relating to freelancers and the regulation of the freelance sector.

Progress towards a soft Brexit, or even an entire rethink of the policy altogether, would help the performance of the UK freelance sector. The same would also be true for more supportive Government policies for freelancers in the realms of taxation and regulation. In the meantime, freelancers will do what they have found to enhance their business performance in the past, and that is to adopt strategies and practices which build their own brand and reputation, create new and better services for their clients and find new and existing markets with business opportunities for freelancers.

an average age of 44, have been freelancing for an average of 8.2 years and are highly educated – 28 per cent have a highest qualification at the postgraduate degree level while 55 per cent have a highest qualification at the undergraduate degree level.

Authors and acknowledgements

Professor Andrew Burke

Dean of Trinity Business School,
Trinity College, Dublin & Chair
of the Centre for Research on
Self-Employment

Dr Samuel Vigne

Assistant Professor, Queen's
Management School, Queen's
University Belfast

Tom Purvis

Political and Economic Adviser,
The Association of Independent
Professionals and the Self-Employed

Inna Yordanova

Research Officer,
The Association of Independent
Professionals and the Self-Employed

About IPSE

IPSE is the largest association of independent professionals in the EU, representing over 74,000 freelancers, contractors and consultants from every sector of the economy. It's a not-for-profit organisation owned and run by its members.

We believe that flexibility in the labour market is crucial to Britain's economic success, and dedicate our work to improving the landscape for the freelance way of working through our active and influential voice in Government and industry.

IPSE aims to be the principal and definitive source of knowledge about freelancing and self-employment in the UK. We work with leading academic institutions and research agencies to provide empirical evidence about evolving market trends. This research supports our work with Government and industry and delivers key market intelligence to help our members with business planning.

About PeoplePerHour

PeoplePerHour is the UK's premier enabler, providing an unparalleled platform for niche experts and potential employers to find each other.

Launched in 2007 by entrepreneur Xenios Thrasyvoulou, PeoplePerHour has experienced exponential growth and unprecedented success, with 1.5m users visiting the site every single month.

Originally launched in Athens, the company now has offices in London, New York and Berlin, and users based in 226 countries throughout the world.