

IPSE Confidence Index

Q2 2017





Economist's Perspective

The second quarter of 2017 finds freelancers less confident than they have ever been since we began this survey. And if the macro trends are anything to go by, it is not hard to see why.

In early August, the Bank of England revised growth forecasts for 2017 to 1.7%, down from 1.9% when they last reported in May. Forecasts for 2018 have also been downgraded to 1.6% from an earlier forecast of 1.7%. Up till recently, the UK had been outperforming expectations following the vote to leave the European Union (EU). But these weaker growth forecasts align with this survey's findings, which show a marked dip in freelancers' confidence in the economy as a whole.

The survey also comes at a time when inflationary pressure on businesses and consumers remains high. In the last quarter, inflation rose to 2.9% before dropping back to 2.6%, still above the Bank of England's target of 2%. The dip to 2.6% can mostly be attributed to lower motor fuel prices. This will be a positive for freelancers because they tend to be much more mobile than the rest of the working population, regularly traveling long distances and changing location depending on their clients.

The overall trend of higher inflation is underpinned by continued weakness in sterling. The latest retail sales figures for the first half of the year are flat, while the most recent Purchasing Managers Index also suggests continued sluggish growth for the economy. Unlike employees, freelancers are responsible for purchasing the goods and services that enable their businesses to run, and this is reflected in the fact that the vast majority – 92% – of freelancers are expecting their business costs to rise.

What has prompted freelancers' pessimism?

Two factors stand out as significant drags on freelancer confidence: Brexit and Government policy towards the

freelance community.

With negotiations over the UK's exit from the EU still in the early stages, we are beginning to get an idea of what the UK's relationship with Europe will be. It appears that the UK will cease to be a member of the single market, which will concern freelancers who regularly take contracts abroad (around one in 10 do so each year). Uncertainty about access to the single market is likely to be a major factor in freelancers' concerns about Brexit.

At the political level, changes to IR35 legislation in the public sector have begun to bite, with reports of many freelancers walking away from contracts. The changes have fuelled much of the pessimism and uncertainty shown in the survey. Any attempts to bring about further changes to freelancers' tax status could prolong negative sentiment towards the government.

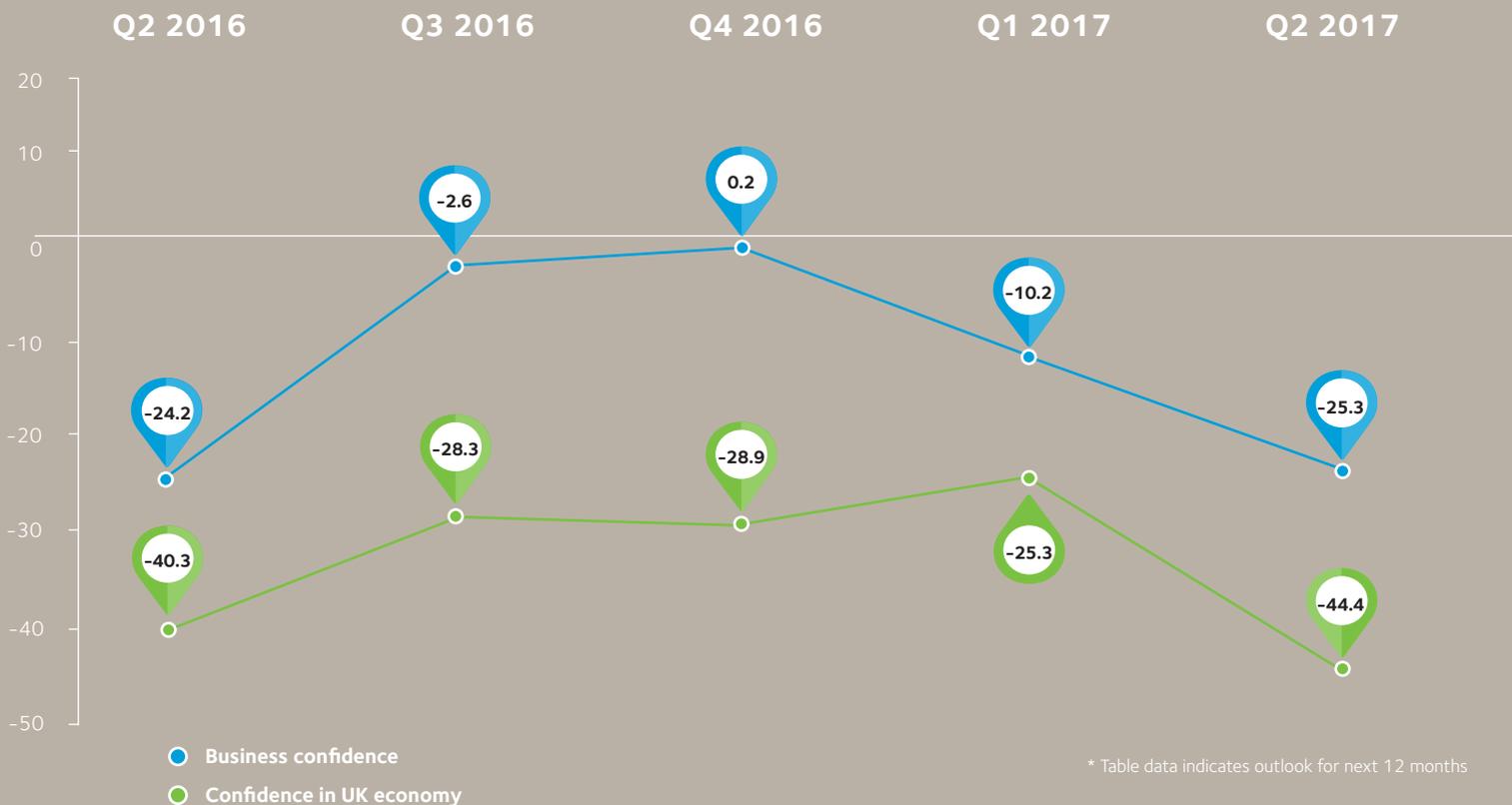
There is, however, some promising news to report. Freelancers' day rates remain strong this quarter, performing significantly better than their lack of confidence suggests. Day rates have hit a peak of £525, which shows the considerable earning power of freelancers compared to employees. However, if inflation continues to climb, it will erode earnings right across the sector.

Freelancers' confidence in the economy and their business hits a record low

Freelancer Confidence Index:

-25.3

(From -100 to +100)



Business cost

92%

of freelancers believe their costs will **increase**

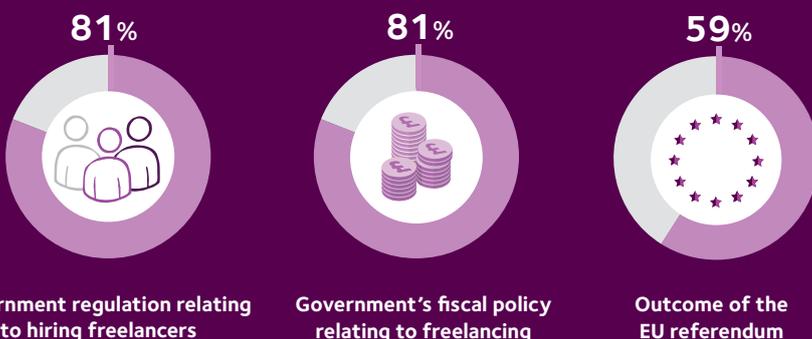


Demand for freelance work

Amount of time freelancers have been on assignment



Top factors lowering business performance in Q2 2017



Over the last **12 months** freelancers have been on assignment for, on average, **82%** 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

- Business confidence within the freelance sector drops to a record low.
- Government policy and Brexit blamed as main causes of downturn in the freelance sector.

Freelancer UK Economy Confidence Index

- Freelancers predict a major slowdown in the UK economy.
- The economic confidence index score, which is an indicator of UK GDP growth, contains an emphatic prediction of a downturn in the UK economy.

Day Rates

- Freelancers' day rates are up marginally over the last 12 months, but are expected to decline moderately over the next year.

Capacity Utilisation

- Capacity utilisation continues to remain high at 83 per cent of maximum potential activity.

Quarterly Earnings

- Quarterly earnings are up 3.6 per cent on Q1 of 2017, but are still 2.5 per cent below the same time last year.

Freelancers' Business Costs

- A rise in business costs is expected across the freelance sector as exchange rate depreciation kicks in.



Freelancer Business Confidence Index

Freelancers' business confidence has been in continual decline since the start of 2017. It has now reached the lowest level on record, with freelancers expecting the biggest decline in their businesses to date. The three month outlook for freelancers' business performance has fallen from a positive value at the end of 2016 to -4.5 in quarter one (Q1) and to a record -12.2 in quarter two (Q2) of this year (Table 1).

Freelancers clearly feel that their Q1 prediction of intensifying business decline over the next 12 months is

quickly becoming a reality. As a result, there has been a significant drop in freelancers' three-month outlook in Q2 compared to Q1 of this year.

This drop in freelancer business confidence is fairly consistent across all three Standard Occupational Classifications (SOC) surveyed: SOC1 (managers, directors and senior officials), SOC2 (professional occupations) and SOC3 (associate professional and technical occupations).

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2017	-11.4	-10.5	-14.3	-12.2
Quarter 1: 2017	-6.4	-6.6	-1.4	-4.5
Quarter 4: 2016	15.6	-4.3	11.4	6.7
Quarter 3: 2016	-19.2	3.6	14.9	3.0
Quarter 2: 2016	-37.5	-10.1	1.6	-11.5

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 2016.

Since the outcome of the EU referendum, the 12 month outlook for freelancer business confidence has fallen significantly below the three month outlook. This trend persisted in the most recent survey results. These showed that the 12 month business confidence index score is now

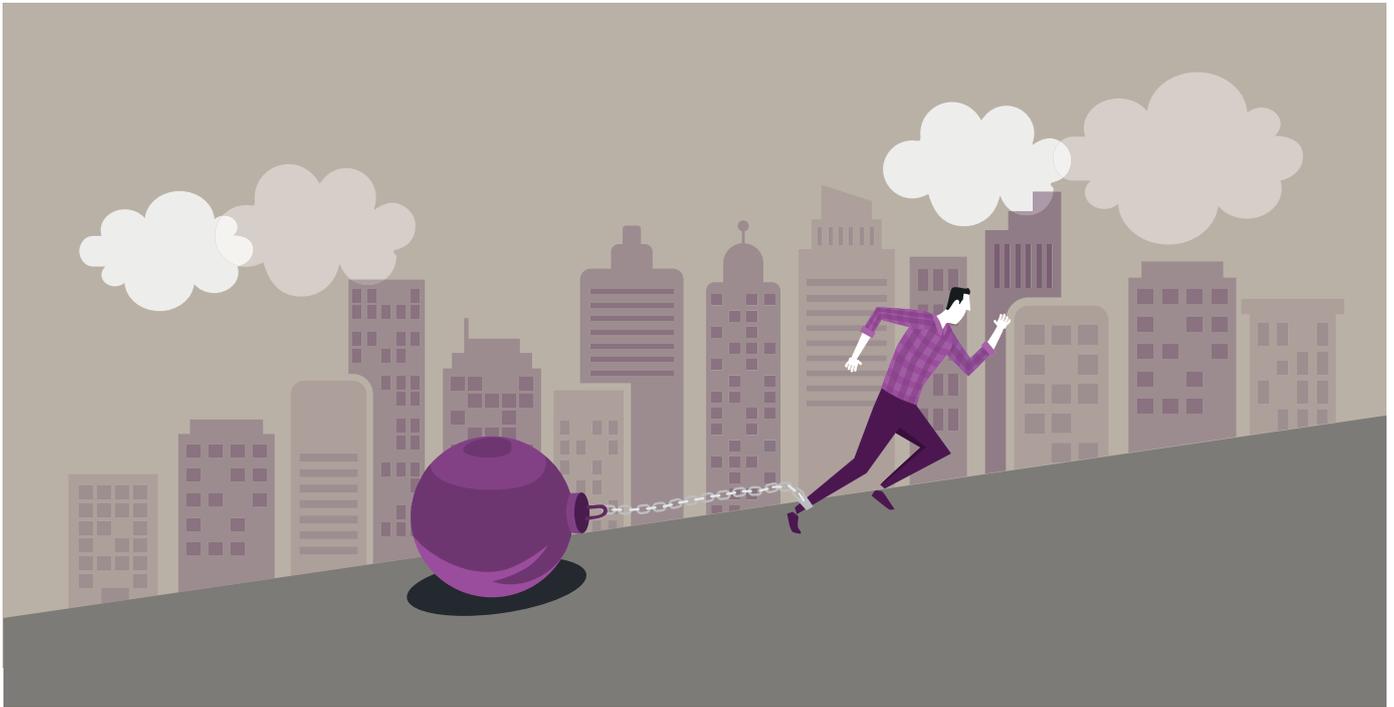
two times lower than the three month outlook score (Table 2).

In short, freelancers believe that the worst is still to come, but the predicted negative business environment is now closer than ever before.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2017	-25.0	-24.2	-26.4	-25.3
Quarter 1: 2017	-13.1	-15.6	-3.4	-10.2
Quarter 4: 2016	2.9	-15.9	12.7	0.2
Quarter 3: 2016	-32.1	-5.6	16.4	-2.6
Quarter 2: 2016	-41.7	-22.7	-15.7	-24.2

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 2016.



Factors Affecting Business Performance

The main factors behind this significant decline in business confidence seem to be Government policy on hiring freelancers, taxation of contract work and, of course, Brexit (Table 3).

The order of importance is the same for SOC1 and SOC3 freelancers. It is slightly different, however, for SOC2 freelancers, who rank fiscal policy as a more significant negative factor than government regulation of the hiring of freelancers.

Factors that did not make the top three include: input costs,

intensity of competition, labour market trends and GDP growth.

Consistent with previous quarters – particularly since the outcome of the EU referendum – freelancers indicated that the biggest factor behind their falling confidence is public policy.

The upside is that public policy is the area the Government has the most influence over, so it is in a position to rectify the situation.

Table 3: Top factors that lower freelancers’ business performance

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	Government regulation relating to hiring freelancers (86.4%)	Government’s fiscal policy relating to freelancing (84.5%)	Government regulation relating to hiring freelancers (81.3%)	Government regulation relating to hiring freelancers (81.4%)
2	Government’s fiscal policy relating to freelancing (84.1%)	Government regulation relating to hiring freelancers (78.2%)	Government’s fiscal policy relating to freelancing (75.0%)	Government’s fiscal policy relating to freelancing (80.6%)
3	Outcome of the EU referendum (56.8%)	Outcome of the EU referendum (61.3%)	Outcome of the EU referendum (58.1%)	Outcome of the EU referendum (58.9%)

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

The main factors enhancing freelancers' business performance (Table 4) are various effective freelancer business strategies, as well as a range of sector-specific elements.

The top two factors are brand/reputation building and innovation strategies. The third-highest factor is growth in freelancers' various individual sectors.

In both the SOC2 and SOC3 groups, the main factor driving up performance is brand/reputation building. In the SOC1 group, however, the single biggest factor was innovation.

It is also noteworthy that innovation was more important to

SOC3 freelancers than SOC2 freelancers, who listed it as the third-most most significant factor.

Overall, innovation and brand value are perceived as the most significant drivers of business performance. The growth of freelancers' individual sectors was also significant for people in the SOC1 group, while flexible working practices was the second most important factor for SOC2 freelancers. SOC3 freelancers also felt that targeting new markets was a key factor, ranking it as third after innovation.

Table 4: Top factors enhancing freelancers' business performance

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	Innovation in terms of the services I offer clients (55.8%)	My brand value/ reputation in the market (57.3%)	My brand value/ reputation in the market (63.3%)	My brand value/ reputation in the market (57.4%)
2	Growth of the sector in which I work (52.3%)	Adoption of flexible working practices by organisations (47.8%)	Innovation in terms of the services I offer clients (56.3%)	Innovation in terms of the services I offer clients (52.4%)
3	My brand value/ reputation in the market (47.7%)	Innovation in terms of the services I offer clients (46.0%)	Targeting new markets (50.0%)	Growth of the sector in which I work (45.8%)

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

Over the last year, freelancers have been predicting a slowdown in the economy, which indeed materialised. Freelancers are in a good position to gauge economic growth projections because they are more intensely engaged in projects involving innovation, entrepreneurship, technological change and business growth.

It is therefore noteworthy that the economic slowdown predicted by freelancers has not only continued, but actually intensified. The three month economic confidence index score

is now down to its second-lowest level since the all-time low after the EU referendum (Table 5).

This score is reflected fairly consistently across the SOC1 and SOC3 groups. Among SOC2 freelancers, however, confidence in the economy is now at an all-time low, having fallen just below the post-Brexit low of -36.0.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2017	-37.0	-36.6	-29.7	-34.0
Quarter 1: 2017	-20.9	-15.6	-13.6	-16.1
Quarter 4: 2016	0	-22.8	-17.6	-15.5
Quarter 3: 2016	-21.4	-13.2	-17.7	-16.9
Quarter 2: 2016	-50.0	-36.0	-32.5	-37.8

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 2016.

Freelancers' economic outlook for the next 12 months is even gloomier, with confidence index scores recording the lowest levels since the survey began – even exceeding the dire scores at the time of the EU referendum.

The 12 month economic confidence index score is deeply into negative values, standing at -44.4. This means that an overwhelming majority of freelancers expect the UK economy to slow down significantly over the next year. This has mainly been driven by SOC1 and SOC2 freelancers,

whose confidence in the UK economy is at a record low. Freelancers working in SOC3 occupations also have extremely low levels of confidence in the future of the economy. Their confidence index score is -32.4, which is only marginally better than the post-Brexit low of -35.7.

Overall then, freelancers have predicted an even greater slow-down of the UK economy over the next 12 months, with the worst deceleration expected after the next three months.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2017	-54.3	-50.7	-32.4	-44.4
Quarter 1: 2017	-23.3	-27.2	-24.8	-25.3
Quarter 4: 2016	-16.7	-36.8	-28.7	-28.9
Quarter 3: 2016	-35.7	-24.8	-27.2	-28.3
Quarter 2: 2016	-50.0	-39.3	-35.7	-40.3

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 2016.



Freelancer Day Rates

In contrast to their low confidence in the freelance sector and the economy in general, freelancers have had a good second quarter in terms of their day rates. In fact, in Q2, freelancer day rates rose to the highest level recorded in this survey (£525 - Table 7). This amounts to an increase of nearly five per cent on Q1 of this year.

The overall annual increase, however, is a more modest 1.4 per cent. This is because day rates declined at certain points since the same quarter last year.

Nevertheless, it is evident that freelancers are not basing their business and economic forecasts on extrapolations from their current day rates and related business performance.

At an occupational level, it is clear that it is the managerial (SOC1) and professional (SOC2) freelancers who are experiencing significant day rate increases, because freelancers in the technical professions actually suffered a drop in their day rate since Q1.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2017	£619	£542	£452	£525
Quarter 1: 2017	£539	£515	£465	£501
Quarter 4: 2016	£566	£479	£285	£419
Quarter 3: 2016	£601	£475	£231	£403
Quarter 2: 2016	£519	£508	£526	£518

The weighted average is based on the relative number of freelancers in the labour market in 2016.

Table 8 shows that the majority of freelancers do not think the current day rates are sustainable. More than half (55%) expect day rates to decline over the next 12 months – predominantly driven by SOC1 and SOC3 freelancers.

SOC2 freelancers are the most optimistic, with equal

proportions expecting an increase and a decrease in their day rates. As with their pessimistic predictions about the freelance sector and the economy in general, it is clear that freelancers are not basing their day-rate predictions on previous, steady growth, but on new information.

Table 8: Expected changes to freelance day rate over the next 12 months

	SOC 1	SOC 2	SOC 3	Weighted Average SOC1-3
Increased	41%	47%	33%	40%
No change	5%	6%	4%	5%
Decreased	55%	47%	63%	55%

The weighted average is based on the relative number of freelancers in the labour market in 2016. Because of rounded percentages, the total may not always be 100.



Capacity Utilisation

Freelancers' capacity utilisation was down slightly on last quarter. It currently stands at 83 per cent capacity utilisation, meaning that freelancers spent just 2.2 out of the quarter's 13 weeks not working.

These results are consistent with previous quarters, which have been marked by long-term high capacity utilisation.

This quarter's high capacity utilisation was largely driven by SOC1 and SOC2 freelancers. Although capacity utilisation for SOC3 freelancers was still relatively high this quarter, it is lower than the same quarter last year.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2017	1.2	2.2	2.9	2.2
Quarter 1: 2017	1.4	2.3	1.9	1.9
Quarter 4: 2016	2.4	2.4	3.0	2.6
Quarter 3: 2016	4.5	2.7	3.5	3.4
Quarter 2: 2016	1.5	1.6	1.9	1.7

The weighted average is based on the relative number of freelancers in the labour market in 2016.



Quarterly Earnings

Freelancers' average quarterly earnings have grown by 3.6 per cent since Q1 of this year, generating a net gain of £1,015 in pre-tax income. Compared to the same quarter last year, however, freelance earnings have declined by 2.5 per cent (Table 10).

This quarter, earnings performance varied significantly between the different occupations. On the one hand, SOC1 and SOC2 freelancers' earnings have increased since Q1 and, in fact, since Q2 last year. SOC3 freelancers' earnings, on the other hand, have fallen considerably over the same period. It is because of the scale of this decline that there has been an

overall drop in freelancers' average earnings.

What is quite striking is that despite this varied quarterly earnings performance, freelancers' overall business confidence has collapsed over the same period.

This may suggest that freelancers are basing their business confidence less on extrapolations from past trends, and more on information about future business performance (i.e. client's plans – or lack of plans – for future innovation, technological change, new projects and business growth).

Table 10: Freelancers' average quarterly earnings

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 2: 2017	£36,733	£29,313	£23,583	£28,847
Quarter 1: 2017	£31,395	£27,402	£26,168	£27,832
Quarter 4: 2016	£29,236	£25,595	£14,345	£21,805
Quarter 3: 2016	£26,158	£24,889	£10,879	£19,422
Quarter 2: 2016	£31,120	£28,774	£29,480	£29,601
Quarterly equivalent employee earnings 2016 (ONS estimates*)	£10,192	£9,321	£7,722	£8,906

The weighted average is based on the relative number of freelancers in the labour market in 2016.

*Employee earnings are based on Office for National Statistics (ONS) data on employees' gross weekly earnings, as reported in the Annual Survey of Hours and Earnings, October 2016.



Freelancers' Business Costs

The forecast of freelancers' business costs (Table 11) shows that freelancers are more united than ever before in their prediction that their business costs will rise over the next year.

A striking 92 per cent of the freelancers surveyed said they expected their business costs to rise over the next year, while just four per cent said they expected them to fall. This remarkable disparity is evident across all occupation groups, but it is especially strong for SOC1 and SOC3 freelancers.

It is likely that the biggest factor behind this is the increase in the cost of imported goods and services following the post-Brexit drop in the value of sterling.

As a result, the expected drop in business performance may not be just because of the slowing UK economy and the resultant fall in business trading volumes, but also because of the expectation that higher business costs will squeeze profit margins.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Increased	96%	87%	95%	92%
No change	0%	7%	5%	5%
Decreased	4%	7%	0%	4%

The weighted average is based on the relative number of freelancers in the labour market in 2016. Because of rounding percentages, the totals may not add up to 100.

Summary

Over the last 12 months freelancers have held firm in their belief that Brexit and Government policy relating to freelancers will eventually feed into a decline in the UK economy and their own business performance. As 2017 has unfolded, they have been proved right on both counts.

This should not be too much of a surprise, because freelancers engage in economic activity that is among the key drivers of GDP growth – involving projects associated with business development, innovation, technological improvement and entrepreneurship. Freelancers also do much to help organisations reduce the risk of business growth.

It is extremely concerning that freelancers' business and economic confidence indices have reached record lows this quarter. The situation may actually be even worse because of the anticipated rise in freelancers' business costs.

Freelancers are, by character, resilient, and the Confidence Index has consistently shown that they are very good at driving up their business performance with strategies based on innovation

and brand/reputation development.

What distinguishes the latest survey from previous examples, however, is that freelancers are no longer confident that they will be able to use these strategies to prevent a downturn in their business performance.

Freelancers now see not just Brexit, but also Government policy on taxation and regulatory constraints as the main factors driving a decline in the freelance sector.

One small consolation is that all of these negative forces are related to public policy, meaning that it is within the Government's power to rectify the situation. And given the record rates of business and economic decline predicted in this survey, the Government must take steps to rectify this.

More than ever, freelancers are warning the Government of the dire impact of public policy in these areas, and calling for a new approach to support freelancers working in modern, dynamic economies.

The Sample

The quarterly IPSE Confidence Index report for Q2 of 2017 was compiled from the responses of 691 IPSE members, who replied to an online survey. In Q2 2017, the survey composition of respondents was: 15 per cent female and 83 per cent male (2% undeclared); an average age of 50, and

an average of 11.9 years freelancing. They were also highly educated, with 32 per cent educated up to postgraduate level and 54 per cent with an undergraduate degree as their highest qualification.

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About IPSE

IPSE is the largest association of independent professionals in the EU, representing over 67,000 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.