



IPSE Confidence Index

Q4 2016

In association with:

upwork



Economist's Perspective

The year 2016 saw volatility in the economy, which was reflected in freelancers' confidence. The outcome of the EU referendum drove confidence in the economy down, and government intervention had a negative effect on freelancers' confidence in the performance of their own business. Freelancers' response to all of this volatility has been clear in their confidence outlook throughout the year, with particularly widespread negative sentiment being picked up in quarter two (Q2) and quarter three (Q3). Throughout 2016 however, the UK economy has beaten the expectations of freelancers, the wider business community and many analysts, but the legal process of Brexit is yet to begin. Freelancers, therefore, still expect the economy to slow down over the next 12 months. There is good news however, in that freelancers' confidence in their own business has returned to positive territory, albeit only very slightly.

How have freelancers' businesses progressed through 2016?

Freelancers' business performance was particularly unstable in 2016. In terms of quarterly earnings, their performance in Q2 was the strongest ever by a notable margin, benefitting from both highest ever recorded levels of demand for their services and day rates. Freelancers were recorded as being on assignment for more of their time since the survey first began two and a half years ago. Their day rates were also not only a record high but on average £100 higher than three months before.

This progress was quickly reversed in Q3 when quarterly earnings instead fell, as both demand for freelancers and rates of pay fell to historic lows. In the final three months of the year however normality was restored. In quarter four (Q4) key indicators remain a little below average, but the recovery has perhaps assisted the restoration in confidence seen in this report.

Freelancer confidence in their business

The picture of subdued freelancer confidence makes sense given the context of volatile performance in 2016. Freelancers were very negative in how they saw their own businesses progressing over the following 12 months at the point of Q2. This was very likely driven by a combination of factors, the key reason being concern surrounding government intervention. This year's Budget proposed a tightening of the IR35 rules for contractors working in the public sector and these changes were confirmed in the Autumn Statement. One slight relief that could be taken from the Autumn Statement is that the rules will be limited to the public sector and won't therefore affect the majority of freelancers working across other sectors.

It is possible that the aforementioned success of freelancers' performance in Q2 of 2016 may have weighed on future confidence as freelancers anticipated that they would not be able to sustain such a level of performance for another 12 months. Also, the Brexit vote followed the Q2 survey period at which point confidence levels began to fall. Brexit is seen by a small majority of freelancers as having the potential to harm their business by the end of 2017, but is not a greater concern than the actions of Government. Overall, freelancers' confidence in their businesses was restored in Q4. It was only slightly positive, but certainly much better than it was six months ago.

How has the economy fared in the past 12 months?

The UK economy has beaten the expectations of most over the past year. Gross Domestic Product (GDP) growth remained strong, at 0.6 per cent for Q3, despite the shock vote to leave the European Union (EU). The labour market continues to show remarkable strength, with the unemployment rate reaching an 11 year low in the three months to September, and the total number of unemployed people falling further in November and December's labour market figures. In addition, real wages have

seen modest but consistent growth throughout the year; in December the figure was 2.5 per cent.

Inflation emerged as an area of concern in the second half of the year for freelancers, larger businesses and households. While inflation remained historically very low throughout 2015, the vote to leave the EU resulted in rapid depreciation of Sterling. This has pushed up the price of the UK's imported goods and this may result in increased costs for businesses and consumers alike. Reflective of this concern is the fact that more than two thirds (69%) of freelancers believe that their input costs will increase over the next 12 months.

Freelancer confidence in the economy

Freelancer confidence in the economy remained very downbeat in Q4 of 2016. It seems that although the economy has remained strong since the vote to leave the EU, freelancers still expect there to be some consequences for the UK economy at some point in the future. This view is supported by the fact that the legal process of Brexit has yet to begin. Interestingly, freelancers see the economy faring worse as the coming year goes on, with the three month outlook not quite

as low as the 12 month outlook. This is likely because Article 50 is scheduled to be triggered by March 2017 and it makes sense that the economic impact of this will start to be seen afterward. This suggests freelancers think their own business will outperform the wider economy in 2017.

Freelancers' confidence was hit by volatility in 2016 and this was defined by three key threats. The fact that business performance fluctuated greatly in the middle of the year and harmful government intervention became ever more likely, caused freelancers' confidence in their own business to struggle in Q2 and Q3 before recovering in Q4. Their confidence in the UK economy however has not improved. While the economy outperformed expectations in 2016, freelancers' levels of confidence indicate that maybe the anticipated downturn has been delayed, perhaps until after Article 50 has been triggered by Government.

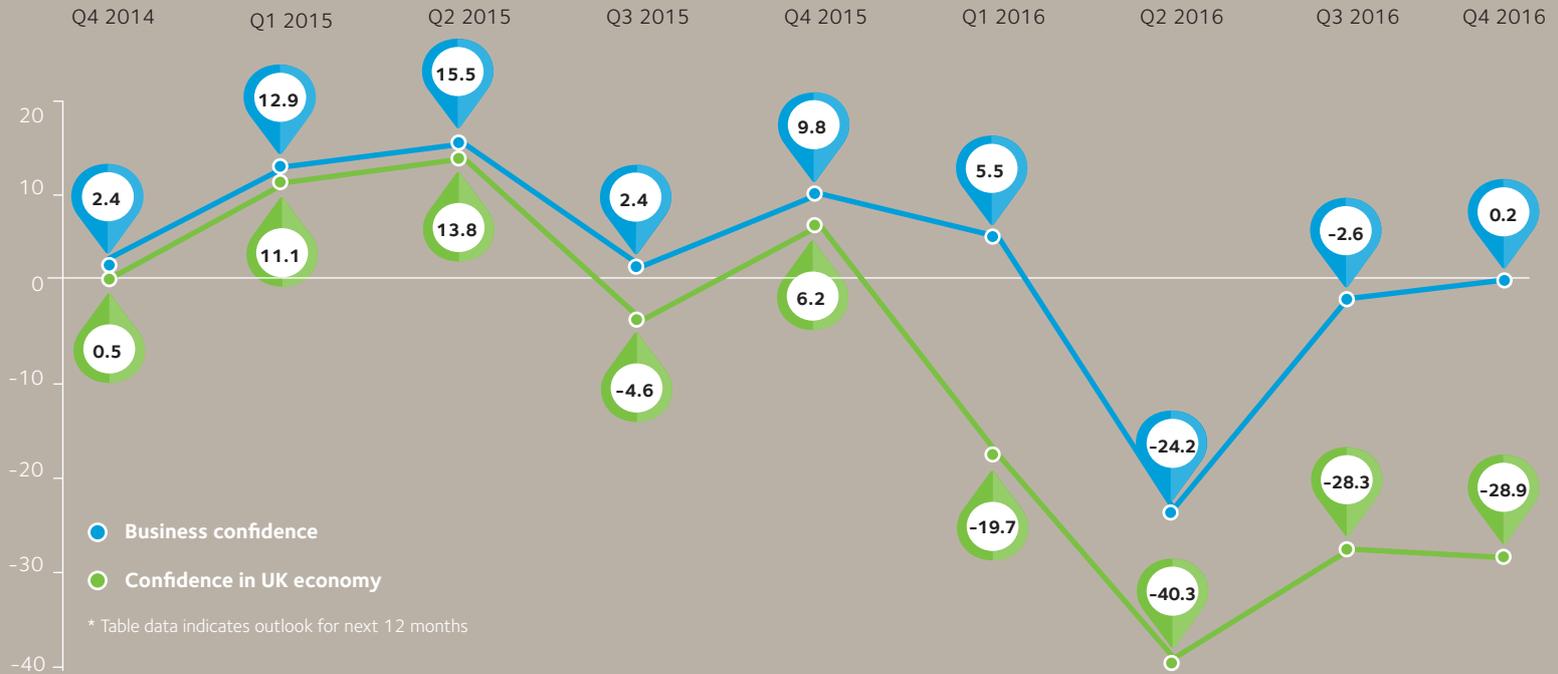
Freelancers' confidence returns with positive outlook for 2017

Freelancer Confidence Index:

0.2

(From -100 to +100)

Freelancers' confidence in the UK economy remains low, but confidence in their business performance picks up



Business cost

Almost seven in ten freelancers expect their costs to increase in the next 12 months

69%

of freelancers believe their costs will **increase**



Demand for freelance work

Q4 2016

80%

Q3 2016

74%

Q2 2016

87%

Q1 2016

83%

Q4 2015

83%

Top factors lowering business performance in Q4 2016

46%



Government's fiscal policy relating to freelancing

40%



Outcome of the EU referendum

31%



Level of competition from other freelancers

On average over the last **12 months** freelancers have been on assignment **81%** of the time

Executive Summary

The stand out event for 2016 was the very negative impact that the result of the EU referendum has had on freelancer business performance and confidence. The freelancer business confidence indices plummeted deep into negative values in Q2 of 2016, and the 12 month outlook was still negative in the Q3 survey. In Q4 of 2016 the freelancer business confidence index for the next 12 months has finally returned to a positive value, but only just at 0.2 indicating that on balance freelancers expect their businesses to perform more or less the same over the year. Freelancers believe that the short-term negative consequences of the EU referendum have now been absorbed as far as business performance over 2017 is concerned.

However, freelancers don't have the same level of confidence in the performance of the UK economy for the next 12 months. The freelancer UK economy confidence indices is still deeply negative. In fact, freelancers' confidence in the UK economy for the next 12 months has marginally declined from an index score of -28.3 in Q3 to -28.9 in the Q4 of 2016. However the decline in the UK economy that freelancers have been predicting since the start of 2016 has not yet emerged and therefore, the persistence in these negative index scores reflects freelancers' belief that a decline will still come to pass over the next 12 months. Freelancers are also expecting further input price inflation over the next 12 months. Therefore, freelancers are predicating 2017 to be a year marked by tough economic conditions.

Freelancers' business performance has improved during Q4 of 2016 with a rise in day rates, capacity utilisation and quarterly earnings. Quarterly earnings are more or less the same as they were this time last year, despite the early gains in the first half of the year not only being wiped out in Q3, but also declining. In the Q4 of 2016 earnings recovered somewhat bringing the overall year on year rate of growth to zero per cent. Freelancers' earnings are now roughly 2.4 times the earnings of employees in equivalent occupations, highlighting the ongoing premium that freelancers continue to earn.

This recovery in freelancer business performance which followed a loss of confidence post EU referendum, has not been uniform across Standard Occupational Classifications (SOC) one to three, a criterion used in this report to distinguish freelancers. Freelancers working in SOC3 occupations (associate professional and technical occupations) are the main drivers of these improved results with a 16 per cent rise in quarterly earnings from Q1 to Q4 in 2016. By contrast, freelancers working in SOC2 (professional occupations) witnessed a modest decline of three per cent, and freelancer working in SOC1 occupations (managers, directors and senior officials), experienced a substantial 29 per cent fall in quarterly earnings since the start of 2016. Overall there are mixed fortunes across different occupational segments of the freelance workforce. SOC3 freelancers' focus on international and new markets, which seems to be a key differentiator in driving business performance. As with previous surveys, all freelancers cite government policy as a key constraint on their business performance and highlight the prominence of both building a brand/reputation, as well as being innovative, as key positive drivers of business performance.

The results of the Q4 survey indicate that freelancers feel that the UK economy is still in a precarious position with most expecting economic performance to decline over the next year. They are a little more optimistic about the prospects for their own businesses and expect that the recovery in earnings during Q4 of 2016 will be preserved over next 12 months.



Freelancer Business Confidence Index

The main outcome of Q4 is that the huge fall in business confidence among freelancers that occurred after the EU referendum has now been absorbed. A small majority of freelancers now expect their business performance to improve rather than decline throughout the next year. Freelancers' three month business confidence index is almost back up to levels that occurred just before the EU referendum result (Table 1).

The outlook over the next 12 months is less positive with an index score of 0.2, which indicates that there is an expectation that performance over the next 12 months will be no different than the last 12 months. While this is the highest 12 month business confidence index score since Brexit was announced, it is significantly lower than any business confidence index score recorded prior to the referendum.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 1: 2016	-5.6	-3.3	23.6	7.2
Quarter 4: 2015	12.5	0.3	18.6	10.5
Quarter 3: 2015	8.3	1.9	5.4	4.9
Quarter 2: 2015	11.5	13.1	20.9	15.8
Quarter 1: 2015	7.9	15.2	18.8	14.8
Quarter 4: 2014	-2.5	10.1	3.0	4.2

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 size of freelancers in the labour market in 2015.

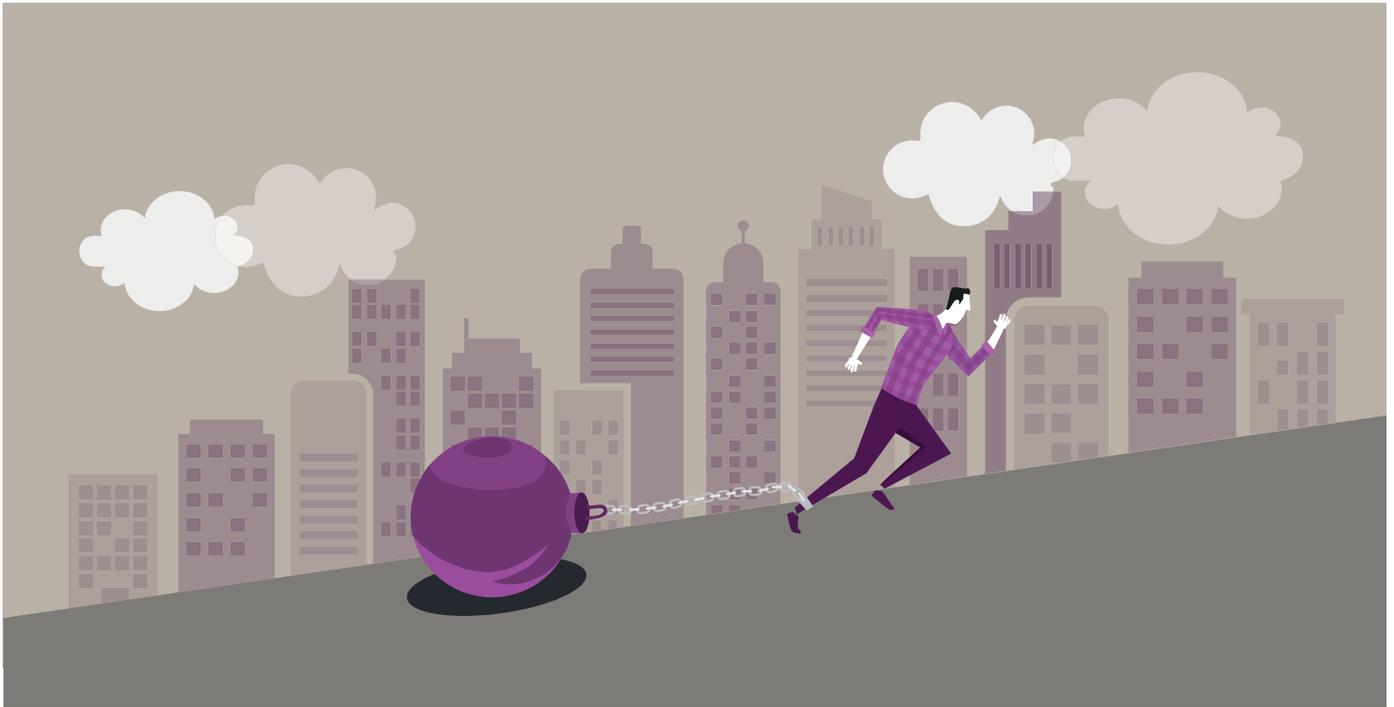
However, these trends are not uniform across the three freelance occupational groups observed in this survey. SOC1 and SOC3 freelancers are the main drivers of the return of confidence. Both of the three and 12 month business confidence outlook (Table 1 and Table 2) for these two occupational groups has returned to levels that even exceed some of those prior to the EU referendum. In terms of the 12 month outlook SOC3 freelancers are clearly expecting business conditions to improve, whereas only a small

majority of SOC1 freelancers expect the same outcome. By contrast, SOC2 freelancers expect business performance to deteriorate over the next three and 12 months (Table 1 and Table 2). In fact, SOC2 freelancers' business confidence score for both the three and 12 month outlooks are now at the second lowest levels ever recorded. To that end, segmentation of the freelance sector by occupation indicates a great deal of heterogeneity in terms of business confidence, and in fact, a divergence in business confidence levels.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 1: 2016	-5	12.4	26.9	5.5
Quarter 4: 2015	18.8	-7.1	19.7	9.8
Quarter 3: 2015	17.0	-10.8	5.6	2.4
Quarter 2: 2015	11.5	10.5	22.5	15.5
Quarter 1: 2015	0.0	12.9	20.9	12.9
Quarter 4: 2014	-22.5	10.1	11	2.4

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 size of freelancers in the labour market in 2015.



Factors Impacting Business Performance

When we examine the main drivers causing the deterioration in freelancers’ business performance over the last three months (Table 3) and over the next 12 months (Table 4), there is a similarity between SOC1 and SOC2 freelancers. Both occupational groups rank the same top three factors as having affected business performance over the last three months. All of these relate to government policy and the outcome of the EU referendum. The negative drivers impacting SOC1 and SOC2 freelancers’ business confidence

over the next 12 months are also similar in that they cite government policies as the top two factors lowering performance, though not in the same rank order. The third most negative influence for SOC1 freelancers is the state of the UK economy, and for SOC2 freelancers it is the outcome of the EU referendum. Notably, all of the negative influences on business performance and confidence for these two groups of freelancers are macro-economic factors.

Table 3: Top factors which lowered freelancers’ business performance over the last three months

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	Government’s fiscal policy relating to freelancing (70.6%)	Government’s fiscal policy relating to freelancing (54.1%)	Outcome of the EU referendum (39.8%)	Government’s fiscal policy relating to freelancing (46.0%)
2	Government regulation relating to hiring freelancers (41.2%)	Government regulation relating to hiring freelancers (41.9%)	Level of competition from other freelancers (32.0%)	Outcome of the EU referendum (40.1%)
3	Outcome of the EU referendum (41.2%)	Outcome of the EU referendum (39.6%)	Change in the value of UK Sterling exchange rate (31.6%)	Level of competition from other freelancers (31.2%)

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, slightly positive, no impact, slightly negative, significantly negative

Freelancers working in SOC3 occupations distinguish themselves by being less impacted by macro-economic factors and more so by international competition within their business sector. The level of international competition among freelancers is cited as the second most detrimental factor affecting SOC3 freelancers' business performance over the last three months and is expected to continue to have a negative impact on business over the next 12

months. The international dimension of business conducted by SOC3 freelancers also seems to be represented in the fact that they are the only occupational group to indicate that the change in the value of UK Sterling exchange rate is a negative influence on their business performance. The outcome of the EU referendum is also viewed as the top negative influence on their business confidence over the next 12 months.

Table 4: Top factors expected to lower freelancers' business performance over the next 12 months

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	Government regulation relating to hiring freelancers (76.5%)	Government's fiscal policy relating to freelancing (67.2%)	Outcome of the EU referendum (43.0%)	Government's fiscal policy relating to freelancing (49.5%)
2	Government's fiscal policy relating to freelancing (64.7%)	Government regulation relating to hiring freelancers (60.7%)	UK GDP growth/ state of UK economy (32.2%)	Government regulation relating to hiring freelancers (49.3%)
3	UK GDP growth/ state of UK economy (64.7%)	Outcome of the EU referendum (52.5%)	Level of competition from other freelancers (34.4%)	Outcome of the EU referendum (47.3%)

Freelancers were asked to rate the importance of 15 factors which can affect the performance of their business over the next 12 months in categories from significantly positive, slightly positive, no impact, slightly negative, significantly negative.

There are huge similarities between all freelancer occupations in terms of the positive drivers of business performance over the last three months (Table 5), as well as the next 12 months (Table 6). All freelancers in SOC1-3 identify the same top two micro factors as having boosted the performance of their businesses over the last three months, and predict that these same factors will enhance their business over the next 12 months. The value of brand/reputation is viewed as the most important factor, while innovation is the second most important factor. In terms of innovation, the development of new services drives

the performance for SOC2 and SOC3 freelancers. For freelancers working in SOC1 occupations, new services played an important role in their performance over the last three months, but these freelancers expect innovation of business processes to be more important in enhancing performance over the next 12 months. The main differences between the three freelancer occupational groups, in terms of positive drivers of business, is the prominence that SOC3 freelancers give to targeting new markets, and the importance that SOC2 and SOC1 freelancers place on networks/collaboration with other freelancers.

Table 5: Top factors which enhanced freelancers' business performance over the last three months

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	My brand value/reputation in the market (41.2%)	My brand value/reputation in the market (43.1%)	My brand value/reputation in the market (54.8%)	My brand value/reputation in the market (47.5%)
2	Innovation in terms of better processes and operations (31.3%)	Innovation in terms of the services I offer clients (32.6%)	Innovation in terms of the services I offer clients (43.2%)	Innovation in terms of the services I offer clients (34.9%)
3	Collaboration with other freelancers/businesses to secure more work (23.5%)	Collaboration with other freelancers/businesses to secure more work (26.9%)	Targeting new markets (38.7%)	Collaboration with other freelancers/businesses to secure more work (28.9%)

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, slightly positive, no impact, slightly negative, significantly negative.

Table 6: Top factors expected to enhance freelancers' business performance over the next 12 months

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	My brand value/reputation in the market (35.3%)	My brand value/reputation in the market (47.8%)	My brand value/reputation in the market (60.3%)	My brand value/reputation in the market (50.1%)
2	Innovation in terms of the services I offer clients (35.3%)	Innovation in terms of the services I offer clients (38.9%)	Innovation in terms of the services I offer clients (47.5%)	Innovation in terms of the services I offer clients (41.6%)
3	Innovation in terms of better processes and operations (29.4%)	Collaboration with other freelancers/businesses to secure more work (35.2%)	Targeting new markets (45.8%)	Targeting new markets (35.1%)

Freelancers were asked to rate the importance of 15 factors which can affect the performance of their business over the next 12 months in categories from significantly positive, slightly positive, no impact, slightly negative, significantly negative.



Freelancer UK Economy Confidence Index

While the negative outlook in the freelancer business confidence index appears to have been absorbed in the aftermath of the EU referendum result, the same is not true in the case of freelancers' confidence in the UK economy. Both freelancers' three month (Table 7) and 12 month (Table 8) confidence index score for the UK economy is as downbeat as it was in the previous quarter. The three month confidence index score for the economy has improved very slightly from -16.9 to -15.5, while the corresponding 12 month index score has got marginally worse with a fall from -28.3 to -28.9. These results indicate that freelancers expect their

businesses to significantly outperform the performance of the UK economy in 2017. However, part of the reason for the very negative outlook may be due to the big drop in the UK's economic performance after the EU referendum result, which freelancers expected has yet to fully materialise. Therefore the persistence of the negative indices scores – which reflect a comparison of current with future expected UK economic performance – may merely indicate that freelancers still think their earlier forecasts for an economic decline following the EU referendum are still valid, but are just taking longer than expected to occur.

Table 7: Freelancer confidence indices for the UK economy over the next three months

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 1: 2016	-5.0	-18.0	-8.9	-11.3
Quarter 4: 2015	31.3	-2.9	1.7	7.3
Quarter 3: 2015	8.3	-2.7	-4.6	-0.7
Quarter 2: 2015	26.9	15.3	6.4	14.7
Quarter 1: 2015	11.1	16.3	5.2	10.7
Quarter 4: 2014	-7.5	7.1	-0.7	0.5

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 size of freelancers in the labour market in 2015.

Also in contrast to the diversity of outlook and drivers of business confidence across freelancers' occupational groups, there is a great degree of homogeneity in terms of freelancers' pessimistic outlook for the UK economy. All freelancer occupational groups have an emphatic negative index score for the outlook for the UK economy over the next 12 months.

Freelancers in SOC2 and SOC3 occupations expect this negative performance to occur quickly and in the first quarter of 2017, while SOC1 freelancers expect that it will not happen until after the Q1 of 2017 (i.e. a zero index value for this cohort in Table 7).

Table 8: Freelancer confidence indices for the UK economy over the next 12 months

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 1: 2016	-25	-24.7	-12.3	-19.7
Quarter 4: 2015	37.5	-6.3	-1.9	6.2
Quarter 3: 2015	0.0	-4.7	-7.3	-4.6
Quarter 2: 2015	15.4	18.7	8.4	13.8
Quarter 1: 2015	5.3	16.5	9.8	11.1
Quarter 4: 2014	-2.5	6.8	-3.3	0.5

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 size of freelancers in the labour market in 2015.



Freelancer Day Rates

In Q3 of 2016 freelancer day rates fell significantly, which we suspected was in part due to a sample size restriction caused by the temporary unavailability of one group of respondents. In Q4 it is insightful to observe that freelancer day rates are indeed lower than Q2, but slightly up on Q3 of 2016 (Table 9). In fact across 2016 freelancer day rates have remained virtually unchanged, having started the year at £418 per day and ending the year at £419 per day. However, this

aggregate result masks divergent day rate performance across freelancer occupational groups. SOC1 freelancers witness a significant fall in date rates by 11 per cent across 2016 from £639 at the start of the year to £566 at its end. By contrast, SOC3 freelancers' day rates grew by 20 per cent from the first to the last quarter of 2016 – £237 to £285. The day rates for SOC2 freelancers underwent a small marginal fall of one per cent from £483 to £479 in 2016.

Table 9: Average day rates charged by freelancers over the last three months

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 4: 2016	£566	£479	£285	£419
Quarter 3: 2016	£601	£475	£231	£403
Quarter 2: 2016	£519	£508	£526	£518
Quarter 1: 2016	£639	£483	£237	£418
Quarter 4: 2015	£783	£461	£245	£455
Quarter 3: 2015	£546	£454	£312	£421
Quarter 2: 2015	£815	£493	£261	£481
Quarter 1: 2015	£560	£480	£193	£387

The weighted average is based on the relative size of freelancers in the labour market in 2015.

Most freelancers do not expect their day rates to increase over the next year (Table 10). However, a ratio of over two to one expect day rates to increase rather than decline. When looking at each individual occupational group's expectations, it is likely there will be some variation over the next 12 months. The majority of SOC1 freelancers expect no change in day rates (53%), with an almost equal proportion

of freelancers in this group predicting an increase and a decrease. While both SOC2 and SOC3 freelancers look likely to undergo day rate inflation – this is much more likely to be seen among SOC3 freelancers where those expecting an increase outweigh those expecting a fall, by a ratio of over five to one (52% compared to 17%).

Table 10: Freelancer day rate expected change over the next 12 months

	SOC 1	SOC 2	SOC 3	Weighted Average SOC1-3
Increased	24%	30%	52%	38%
No change	53%	47%	38%	45%
Decreased	24%	23%	10%	18%

The weighted average is based on the relative size of freelancers in the labour market in 2015.



Capacity Utilisation

In the Q3 of 2016 freelancers' capacity utilisation (the degree to which they are working/on assignment) fell to 74 per cent, which was the lowest level recorded since the survey began. In this latest quarter capacity utilisation has risen to 80 per cent which, while still among the lowest across previous surveys, is within three percentage points of the prior average capacity utilisation (82%) across

all previous confidence index reports (Table 11). This improvement in business volume activity occurs across all freelancer occupational groupings, with SOC3 freelancers experiencing the lowest capacity utilisation of 77 per cent, or in other words three weeks not working over the Q4 of 2016 period.

Table 11: Freelancers' spare capacity: Number of weeks not working per quarter

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 1: 2016	1.3	2.1	2.7	2.2
Quarter 4: 2015	1.6	2.1	2.6	2.2
Quarter 3: 2015	3.1	1.7	2.4	2.3
Quarter 2: 2015	3.7	1.9	2.6	2.6
Quarter 1: 2015	2.5	2.1	2.4	2.3

The weighted average is based on the relative size of freelancers in the labour market in 2015.



Quarterly Earnings

A rise in both freelancer day rates and capacity utilisation have caused an increase in quarterly earnings from £19,422 in Q3 to £21,804 in Q4 of 2016 (Table 12). This increase in earnings, while not enough to compensate for the fall in quarterly earnings since the first two quarters of 2016, is almost the equivalent (just £16 less) than the same quarter last year (i.e. Q4 2015). Compared to employees, freelancers are now earning 2.4 times the quarterly earnings of employees working in equivalent occupations. This observation coupled with the fact that business confidence

is marginally positive, despite continued pessimism about the prospects for the UK economy, indicates that freelancers believe that across 2017 the sector will be among the highest performing in the UK.

The increase in quarterly earnings occurs across all freelancer occupational groups. The largest quarterly rise (+32%) is among SOC3 freelancers, which is the same occupational group of freelancers with the most positive business outlook for 2017.

Table 12: Freelancers' average quarterly earnings

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 1: 2016	£37,847	£26,347	£12,388	£23,243
Quarterly equivalent employee earnings 2016 (ONS estimates*)	£10,192	£9,321	£7,722	£8,906
Quarter 4: 2015	£33,333	£24,524	£12,147	£21,820
Quarter 3: 2015	£27,611	£25,430	£16,648	£22,511
Quarter 2: 2015	£35,475	£26,840	£13,692	£23,790
Quarter 1: 2015	£27,491	£26,585	£10,395	£20,440
Quarterly equivalent employee earnings 2015 (ONS estimates*)	£10,192	£9,321	£7,722	£8,906
Quarter 4: 2014	£32,848	£27,376	£11,976	£22,663

Employee earnings are based on ONS data on gross weekly earnings by employees. The weighted average is based on the relative size of freelancers in the labour market in 2015.
 *Employee earnings are based on Office for National Statistics (ONS) data on gross weekly earnings by employees from the Annual Survey of Hours and Earnings, October 2016 and the Annual Survey of Hours and Earnings, November 2015 respectively.



Freelancers' Business Costs

Since Q3 of 2016 there has been a rise in the proportion of freelancers who experienced an increase in input costs over the last 12 months – a rise in the equivalent percentage of 45 per cent in Q3 of 2016 to 59 per cent in Q4 of the same year (Table 13). Input prices fell for a relatively small proportion of freelancers. A ratio of just over seven to one observed input price inflation compared to deflation.

Freelancers are forecasting input price inflation over 2017 to surge. Last quarter ten times more freelancers predicted a rise in input costs, compared to those predicting a fall. In the latest Q4 survey, this figure has risen to 23 times more freelancers predicting input price inflation compared

to deflation. These sentiments are strongest among SOC1 freelancers where there was no prediction of deflation, and also high among SOC2 freelancers in which the ratio of inflation to deflation forecast is 32 to one. These differences in forecasts across the three occupational groups most likely reflects recent experience, as it is evident from Table 13 that over the last 12 months SOC1 and SOC2 freelancers experienced the greatest degree of input price inflation. The general view among freelancers is that they expect input price inflation to continue across 2017.

Table 13: Freelancers' input cost change over the last 12 months

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Increased	71%	59%	52%	59%
No change	12%	37%	42%	33%
Decreased	18%	4%	6%	8%

The weighted average is based on the relative size of freelancers in the labour market in 2015. Due to rounding percentages may not total to 100.

Table 14: Freelancer input cost change over the next 12 months

	SOC1	SOC2	SO3	Weighted Average SOC1-3
Increased	76%	74%	60%	69%
No change	24%	24%	35%	28%
Decreased	0%	2%	5%	3%

The weighted average is based on the relative size of freelancers in the labour market in 2015. Due to rounding percentages may not total to 100.

Summary

The impact of the Brexit vote continues to play a prominent role in the latest IPSE Confidence Index. Although UK GDP growth has not yet manifested major negative economic costs, freelancers still anticipate a decline in economic performance. However they feel they are through the worst of the short-term negative effects of the EU referendum result aftermath. Freelancers' quarterly earnings have now recovered the losses sustained in Q3 and are back up to the levels achieved at the same time last year. They expect to be able to sustain this business performance over the next year and thus outperform the UK economy over 2017.

The Q4 result also demonstrates significant segmentation in the performance of freelancers across occupational groups.

Notably, SOC3 freelancers have experienced the greatest improvement in quarterly earnings since the start of 2016, while SOC2 freelancers are down only very marginally, and SOC1 freelancers have declined significantly. The latest results also shows significant continuity among some facts unearthed in earlier surveys, namely that freelancers in SOC1-3 earn a significant premium on the earnings of equivalent employees, Government policies are the main constraints on freelancers' business performance and brand/reputation building and innovation strategies are the main drivers of freelancers' business growth.

The Sample

The IPSE quarterly Freelancer Confidence Index report for Q4 of 2016 was compiled from a database of 1,158 IPSE members and Upwork users who replied to an online survey. The survey is conducted every quarter. In Q4 2016, the survey composition of respondents was: 26% female, 74%

male, an average age of 46, have been freelancing for an average of 7.3 years and are highly educated – 30% have a highest qualification at the postgraduate degree level while 52% have a highest qualification at the undergraduate degree level.

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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.

With highly professional staff working for you, IPSE has the unique ability to demonstrate the economic value of

freelancing to those in power and ensure freelancing is both considered and supported in all areas of regulation and policy. As well as being a campaigning body, IPSE provides a wide range of support services to help its members succeed in business, including tax and legal helplines, IR35 support, and compensation for illness/injury.

Founded in 1999 by a community of freelance contractors, IPSE has become the leading authority on freelancing in the UK. The association is governed by its members and any member is eligible to stand for election to the Consultative Council, and from there, for election to the Board of Directors.

About Upwork

Upwork is the world's largest freelance talent marketplace. As an increasingly connected and independent workforce goes online, knowledge work — like software, shopping and content before it — is shifting online as well. This shift is making it faster and easier for clients to connect and work with talent in near real-time and is freeing professionals

everywhere from having to work at a set time and place.

Freelancers are earning more than \$1 billion annually via Upwork. Upwork is headquartered in Mountain View, California, with offices in San Francisco and Oslo, Norway.