

# Confidence Index

Q1  
2019



In association with:



# Brexit and Government policies take their toll on the freelance sector

Freelancer Confidence Index:

# -6.1

(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

Q1 2019

75%

Q4 2018

79%

Q3 2018

78%

Q2 2018

78%

Q1 2018

79%

Over the last **12 months** freelancers have been on assignment for, on average, **78%** of the time

## Top factors lowering business performance in Q1 2019

59%



Outcome of the EU referendum

55%



Government fiscal policy relating to freelancing

52%



Government regulation relating to hiring freelancers

# Executive Summary

The first quarter (Q1) of 2019 has proven to be very tough for freelancers as they have experienced a 17 per cent decline in income comprised of both a fall in their day rates and the volume of business undertaken. Day rates have declined by 15 per cent from £474 to £405 while spare capacity has risen by four percentage points from 21 per cent to 25 per cent.

The main causes of these are all related to Government policy. Freelancers identify Brexit as the top negative factor impacting their business performance which is perhaps not too surprising given the fall in business investment that has taken place since the EU referendum. Since high skilled service sector freelancers are frequently hired to engage in investment projects associated with business growth and innovation, the fall in investment can be expected to cause a downturn in the demand for freelance services. Freelancers also pinpoint Government fiscal and regulatory policies relating to freelancing as having an adverse effect on their business performance.

It is remarkable that in Q4 2018 freelancers were able to overcome these adverse business conditions by adopting business strategies which managed to generate a net increase in their business performance. However, in the previous two quarters, the freelance sector was in recession and this combined with the latest quarterly results show a situation over the last 12 months where freelancers' quarterly earnings have fallen by 14 per cent from £23,701 to £20,474.

Day rates have fallen by £25 over the same period while spare business capacity has risen from 21 per cent to 25 per cent. In general, all the indicators point towards a fall in demand for freelancer services which are largely driven by public policy induced economic shocks. The freelancer business confidence index score for the next 12 months is -6.1. This suggests that a small majority of freelancers don't expect these public policy conditions to become more favourable over the next year.

Freelancers also remain downbeat about the UK economy. Their UK economy confidence index for the next 12 months reached -38.5 and therefore remains in deep negative territory. As we have noted before, freelancers are fairly astute forecasters of economic performance as they are in privileged position in terms of access to information. They are typically engaged in investment projects involving growth and innovation and get first sight when firms cut back investment. It is, therefore, notable that prior to the EU referendum freelancers were generally upbeat about the future prospects for the UK economy but have been extremely downbeat ever since, reporting categorical negative confidence index scores on the economy.

As far as inflationary pressures are concerned, freelancers expect a modest improvement in their day rates over the next 12 months with an increase of 3.4 per cent which slightly exceeds the current rate of inflation. They are expecting their input costs to rise by a much higher rate of 11.3 per cent and therefore they are likely to expect some tightening in their profit margins over this period. Overall, the information from their sector appears to indicate some sources of inflationary pressure for the UK economy over the next 12 months.

In sum, the freelance sector looks set to operate in a challenging business environment over the next 12 months while earnings growth is expected to be modest. Despite these difficulties, it is notable that freelancer quarterly earnings are still more than twice the level of equivalent employees. This is an impressive level of business performance that should not be omitted when discussing the findings of the report.

## 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).



## Economist's Perspective

The threat of a no-deal recedes, but Brexit and tax policy continue to hammer the self-employed

2019 started awash with downbeat news about the UK and global economy. The quarter was set to finish with us leaving the EU on March 29th. However, at the time of writing, we still haven't left.

There is now an extension in place that takes us up to the third quarter of the year. In one sense, that gives businesses more room to prepare for changes to the economic landscape. In another sense, however, it also drags out the uncertainty of Brexit.

Earlier in the quarter, there was serious uncertainty as it appeared the UK might leave the EU without a deal on the 29th March. That uncertainty has receded somewhat, but still seems to be doing harm to freelancers and other businesses.

On the positive side, as the threat of no-deal receded somewhat, the proportion of freelancers saying Brexit was doing most harm to their businesses fell slightly from 61.3 per cent in Q4 2018 to 58.6 per cent.

Freelancers are, however, expecting a double digit rise in inflation (11.3%) in their business costs, hence the 3.4 per cent net expected rise in day rates. Here, it is likely they are still considering the negative influence of Brexit uncertainty, since rising inflation is often tied to negative economic forces.

Freelancers' confidence in the overall economy remains extremely low, again, seemingly because of continuing Brexit uncertainty. Businesses cannot make decisions and investment is depressed, save for that spent stockpiling.

This has been reflected in data produced by the Confederation for British Industry (CBI) and the Recruitment and Employment Confederation (REC). The CBI's survey of its members found its weakest growth reading in six years, while the REC has recorded its lowest level of confidence on record.

### Beyond Brexit

Brexit is not the only major worry for freelancers. The first quarter of 2019 also ended with the government's Making Tax Digital policy for VAT coming in. Worryingly, one in four businesses have said they "know nothing" of the transition. This could have helped dampen business confidence, now at -6.1, but still up from the end of 2018.

In Q4 of 2018, freelancers enjoyed a massive hike in day rates. This now appears, however, to have been a temporary aberration rather than a growing trend. Day rates rose by a remarkable 21 per cent in Q4, but have now fallen by 15 per cent from £474 to £405 per day. As a result, quarterly earnings have fallen by a similar margin.

Freelancers also worked fewer days in the last quarter. They have seen an overall spare capacity increase of 25 per cent from 2.7 to 3.3 days per quarter.

This shift may be explained by the "talent gap" that boosted freelancers' work and earnings in the last quarter being filled. January is traditionally a popular time for recruitment, and firms were predicting an increase in demand but increasingly relying on short-term fixes instead of hiring permanent staff. This trend now seems to have slowed.

### Conclusion

Overall, in this quarter freelancers have seen a shift back to conditions similar to the middle of 2018. With less work available, business costs expected to rise and government fiscal and Brexit policy driving down confidence, freelancers are in a significantly worse position than in the last quarter of 2018.

It is unlikely that business confidence will return to pre-referendum levels until there is more clarity on the UK's Brexit and broader economic position. Changes on this front could mean more firms turning to freelancers and investment returning, but further uncertainty is likely to weigh down freelancers and the economy even more.



## Freelancer Business Confidence Index

The final quarter of 2018 closed on a mixed note with freelancers' earnings rising by 22 per cent but their three-month business confidence index being in marginally negative territory, which indicated that freelancers expected that some of these gains would be lost.

Earnings have dropped by 17 per cent in Q1 2019 – perhaps a lot more than the previous quarter's confidence indices might have implied. In Q1 2019 the three-month business confidence index is still negative despite a fall in income which means that a recession in the sector is possible for the first half of 2019.

However, the three-month confidence index is only marginally negative at -0.7. In fact, amongst the three Standard Occupational Classifications (SOC) only SOC2 professional freelancers predict a decline in business performance over the next three months. This group of freelancers report a negative three-month confidence index score of -8.2, while both SOC1 and SOC3 freelancers report positive scores (Table 1).

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

|                 | SOC1 | SOC2  | SOC3 | Weighted Average SOC1-3 |
|-----------------|------|-------|------|-------------------------|
| Quarter 1: 2019 | 5.4  | -8.2  | 1.7  | -0.7                    |
| Quarter 4: 2018 | 3.8  | -11.4 | 2.7  | -1.8                    |
| Quarter 3: 2018 | 13.5 | -6.4  | 9.1  | 5.1                     |
| Quarter 2: 2018 | 14.8 | -0.8  | 12.0 | 8.4                     |
| Quarter 1: 2018 | 13.2 | 0.5   | 5.9  | 6.1                     |

*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.*

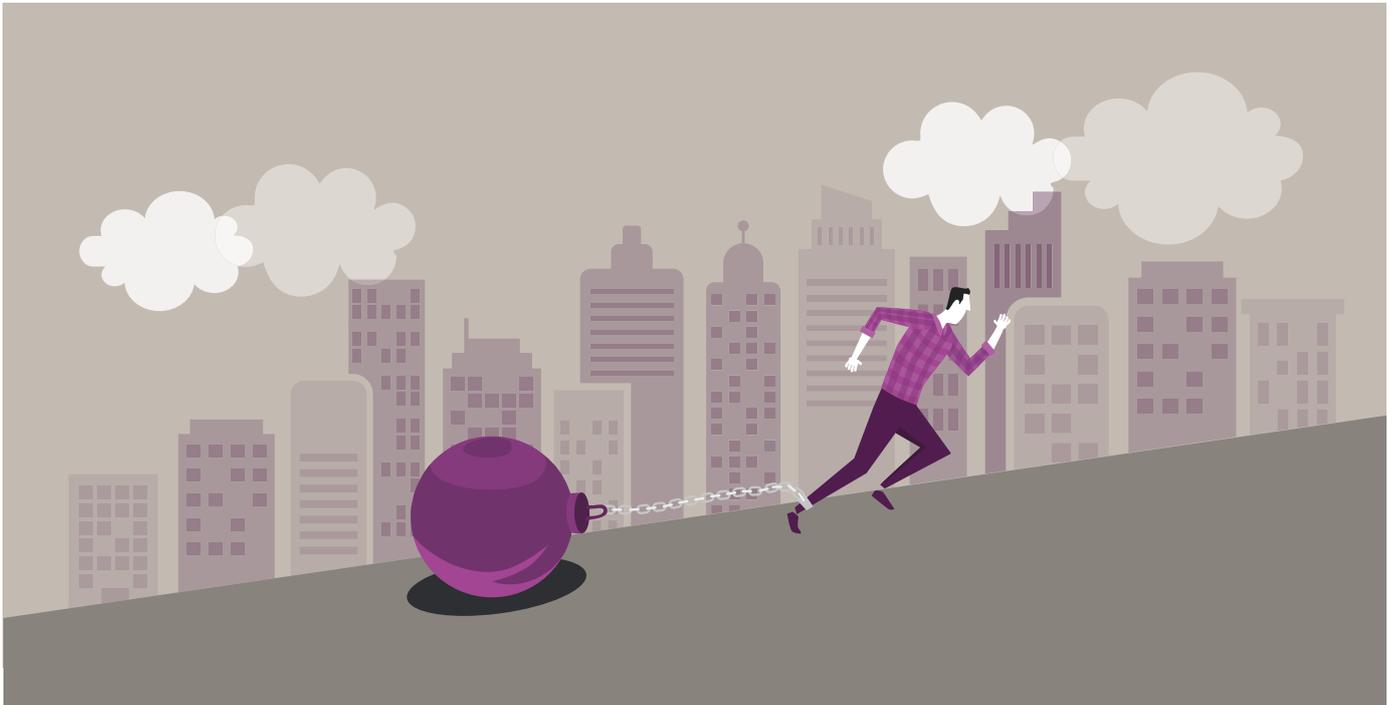
The 12-month freelancer business confidence index is also negative with a score of -6.1 (Table 2). This is a slight improvement from the previous quarter when the index score was -9.1. Last quarter earnings grew exceptionally, whereas this quarter earnings have fallen and hence some recovery over the next 12 months might be expected.

A trend in recent surveys suggests that this result is mainly driven SOC2 professional freelancers who report an index value of -18.0, whereas SOC3 associate professional and technical freelancers report a score of -1.4. SOC1 managerial freelancers actually expect business conditions to improve over the next 12 months. In sum, most freelancers are predicting a challenging next 12 months for their business sector.

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

|                 | SOC1 | SOC2  | SOC3 | Weighted Average SOC1-3 |
|-----------------|------|-------|------|-------------------------|
| Quarter 1: 2019 | 1.8  | -18.0 | -1.4 | -6.1                    |
| Quarter 4: 2018 | 2.4  | -25.8 | -2.7 | -9.1                    |
| Quarter 3: 2018 | 4.2  | -24.9 | 9.8  | -3.5                    |
| Quarter 2: 2018 | 17.6 | -14.4 | 13.8 | 5.3                     |
| Quarter 1: 2018 | -2.6 | -13.7 | 3.7  | -3.9                    |

*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

The factors driving business performance give us an insight into why freelancers' business confidence is relatively low. The main reason appears to be Brexit. As previously reported, this has been an enduring theme ever since the outcome of the EU referendum was announced and caused freelancers' confidence to fall.

Among the factors listed as damaging business performance, the outcome of the EU referendum has always been one of the top three cited by freelancers. Last quarter it was the second most cited factor to have a detrimental effect on business performance while this quarter freelancers have said that it is the most damaging factor to freelancers' businesses.

However, the proportion of freelancers citing it as detrimental fell slightly from 61.3 per cent in Q4 2018 to 58.6 per cent in the current quarter (Table 3). Government policies are cited as the other top detrimental factors, but these too have fallen slightly since Q4 2018.

In the current quarter 55.4 per cent of freelancers identify Government fiscal policy as having a negative effect on their business performance compared to 67.5 per cent last quarter.

Likewise, 52.3 per cent of freelancers cited Government regulatory policy as a detrimental influence on their business performance compared to 57.5 per cent last quarter.

Across the different SOC groups, SOC1 and SOC2 freelancers believe that Government fiscal policy has the most damaging effect on their business performance, while SOC3 freelancers don't even list this amongst their top three negative influences. Instead, they cite the outcome of the EU referendum as having the most detrimental impact on their business performance followed by the change in the value of UK Sterling exchange rate and competition from other freelancers.

SOC1 and SOC2 are identical in the order of their ranking of negative influences with fiscal policy, regulation and Brexit being the first, second and third most detrimental effects on their businesses respectively. Notably, Government policy dominates the negative factors influencing freelancers' business performance with only SOC3 freelancers reporting non-Government related factors as also negatively impacting their businesses.

**Table 3: Top factors that lower freelancers' business performance**

| Rank | SOC1   | SOC2   | SOC3   | Weighted Average SOC1-3                                      |
|------|--|--|--|--|
| 1    | Government's fiscal policy relating to freelancing (58.5%)   | Government's fiscal policy relating to freelancing (76.4%)   | Outcome of the EU referendum (58.3%)                     | Outcome of the EU referendum (58.6%)                         |
| 2    | Government regulation relating to hiring freelancers (52.8%) | Government regulation relating to hiring freelancers (76.0%) | Change in the value of UK Sterling exchange rate (46.0%) | Government's fiscal policy relating to freelancing (55.4%)   |
| 3    | Outcome of the EU referendum (52.8%)                         | Outcome of the EU referendum (63.5%)                         | Level of competition from other freelancers (45.3%)      | Government regulation relating to hiring freelancers (52.3%) |

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.

If the negative influences on freelancers' businesses are identified as being in the hands of the Government, the positive factors are perceived as being mainly within the grasp of freelancers themselves. This pattern is not new and has been a regular theme in previous freelancer confidence index surveys.

The top two factors having a positive impact on freelancers' businesses are brand/reputation and innovation in services offered to clients (Table 4). The third most important factor is the growth of the business sector in which freelancers work.

The role of brand and reputation is listed as the most important factor boosting business performance for all three freelancer SOC groups. This was also the case in Q4 2018 but there is a modest drop in the frequency of citing this factor, falling from 73.7 per cent last quarter to 68.2 per cent this quarter.

Innovation in terms of services offered to clients is also cited amongst the top three factors enhancing freelancers' business performance by all three SOC groups - SOC1 and SOC2 identify it as second most important factor while SOC3 freelancers list it as a third most important factor.

Growth of the sector in which freelancers work is reported as the third most important factor by SOC1 and SOC2 freelancers and this is enough to be the third most important factor for freelancers overall. By contrast, SOC3 freelancers list collaborating with other freelancers and firms as a second most important positive factor enhancing their business performance.

Overall, business strategies and working in buoyant business sectors are the main drivers of freelancer businesses, leaving much scope for self-determination in business performance.

**Table 4: Top factors enhancing freelancers' business performance**

| Rank | SOC1  | SOC2  | SOC3  | Weighted Average SOC1-3                                     |
|------|---|---|---|---|
| 1    | My brand value/reputation in the market (66.7%)             | My brand value/reputation in the market (65.7%)             | My brand value/reputation in the market (71.4%)                             | My brand value/reputation in the market (68.2%)             |
| 2    | Innovation in terms of the services I offer clients (62.7%) | Innovation in terms of the services I offer clients (53.4%) | Collaboration with other freelancers/businesses to secure more work (67.5%) | Innovation in terms of the services I offer clients (60.4%) |
| 3    | Growth of the sector in which I work (56.9%)                | Growth of the sector in which I work (53.1%)                | Innovation in terms of the services I offer clients (64.9%)                 | Growth of the sector in which I work (55.8%)                |

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

After the announcement of the outcome of the EU referendum, freelancers' mainly positive outlook on the UK economy transformed to an emphatic negative outlook and it has remained negative ever since. The three-month freelancer UK economy confidence index is currently -36.3, which is almost the same as last quarter when it stood at -37.6 (Table 5).

These scores are very close to the lowest on record since surveys began in 2014. All three SOC groups of freelancers report negative scores in their outlook for the UK economy over the next three months. The least downbeat are SOC1 freelancers working in managerial occupations who report a score of -27.7, while both professional (SOC2) and technical (SOC3) freelancers report scores close to -40.

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

|                 | SOC1  | SOC2  | SOC3  | Weighted Average SOC1-3 |
|-----------------|-------|-------|-------|-------------------------|
| Quarter 1: 2019 | -27.7 | -40.2 | -38.9 | -36.3                   |
| Quarter 4: 2018 | -40.7 | -40.9 | -32.5 | -37.6                   |
| Quarter 3: 2018 | -9.4  | -33.8 | -18.5 | -21.2                   |
| Quarter 2: 2018 | -11.1 | -21.4 | -22.8 | -19.1                   |
| Quarter 1: 2018 | -9.0  | -16.5 | -19.3 | -15.5                   |

*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 outlook on the UK economy is marginally worse than their three-month outlook (Table 6). The index score for Q1 2019 is -38.5 indicating that a large majority of freelancers expect UK economic performance to dip over the next 12 months.

However, the UK economy index score has improved slightly since Q4 2018 from -48.1 to -38.5. The survey was carried out in a period when options other than a hard Brexit were gaining traction in Parliament. Thus, freelancers who have associated UK leaving the EU with a deterioration in the performance of the economy, have slightly upgraded their economic outlook.

In other words, although the UK still seemed most likely to exit the EU, the prospect of a hard Brexit had declined while the prospect of other options such as Common Market 2.0 and a second referendum, while still unlikely, had become more possible.

The pattern across the three freelancer SOC groups is similar to what was observed with the 3-month outlook on the UK economy. SOC2 and SOC3 freelancers have the most negative outlook on the UK economy and report scores of -43.3 and -41.7 respectively. SOC1 freelancers are still significantly negative but somewhat less so with a score of -28.2.

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

|                 | SOC1  | SOC2  | SOC3  | Weighted Average SOC1-3 |
|-----------------|-------|-------|-------|-------------------------|
| Quarter 1: 2019 | -28.2 | -43.3 | -41.7 | -38.5                   |
| Quarter 4: 2018 | -47.7 | -54.1 | -43.3 | -48.1                   |
| Quarter 3: 2018 | -15.6 | -53.7 | -33.5 | -35.4                   |
| Quarter 2: 2018 | -24.1 | -37.2 | -36.0 | -33.1                   |
| Quarter 1: 2018 | -39.7 | -30.8 | -32.5 | -33.9                   |

*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

Soon after surveys began in 2014, freelancer day rates stood at £404 in the last quarter of the year (Q4 2014). Just over four years later, they have risen by just £1 standing at £405 in Q1 2019 (Table 7).

There have been significant upswings and downswings in the interim period, but the above result is in part due to a very large 15 per cent fall in day rates since Q4 2018. 2018 ended with the freelance sector bouncing out of recession with a large jump in earnings which was mainly driven by a rise in day rates. Most of the £82 gain in day rates since Q3 2018 has now been lost with the current day rate just £13 ahead of that quarter.

The fall in freelancer day rates is not confined to any one freelancer SOC group. All SOC1-3 groups of freelancers have experienced a fall in day rates in Q1 2019. The biggest monetary and percentage fall has been experienced by SOC1 freelancers with day rates falling by 28 per cent (£186) from £675 last quarter to £489 in the current quarter. The decline in day rates for SOC2 and SOC3 freelancers is in single digits at minus seven per cent and minus five per cent respectively.

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

|                        | SOC1 | SOC2 | SOC3 | Weighted Average SOC1-3 |
|------------------------|------|------|------|-------------------------|
| <b>Quarter 1: 2019</b> | £489 | £494 | £266 | £405                    |
| <b>Quarter 4: 2018</b> | £675 | £533 | £280 | £474                    |
| <b>Quarter 3: 2018</b> | £475 | £500 | £239 | £392                    |
| <b>Quarter 2: 2018</b> | £508 | £486 | £232 | £394                    |
| <b>Quarter 1: 2018</b> | £542 | £490 | £299 | £430                    |

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

Freelancers are usually astute predictors of trends in their businesses and the economy, but it appears that the fall in day rates in Q1 2019 caught them by surprise. Last quarter 54 per cent of freelancers predicted a rise in day rates over the next 12 months, contributing to a net expected increase of 3.8 per cent across all freelancers in the survey.

This quarter there has been a small increase to 57 per cent in the percentage of freelancers predicting a rise in day rates over next 12 months (Table 8a). However, the net expected increase in day rates across freelancers overall has remained marginally the same with a net increase of 3.4 per cent expected over the next 12 months (Table 8b). Therefore, it seems unlikely that freelancers could predict the 15 per cent fall in day rates coming and currently they do not expect their day rates to recover over the next 12 months. In other words, freelancers expect their day rates at the end of 2019 to be lower than they were in the same quarter a year earlier in 2018.

While there is some occupational variation in the percentage of freelancers who predict day rates to rise or fall over the next 12 months, the overall pattern is fairly similar across all three SOC groups. In each group, the most popular response amongst freelancers is predicting day rates to increase over the next 12 months, while the smallest minority expect no change (in the range from 6% to 16%).

A sizeable minority in each group expects rates to decrease. The main variation occurs in freelancers' forecast of the net percentage change in day rates. SOC3 freelancers expect the greatest increase of 8.3 per cent, while SOC1 freelancers predict a very marginal increase of just 0.8 per cent (Table 8b). By contrast, SOC2 freelancers expect their days rates to continue to marginally fall over the next 12 months with a forecast of -0.2 per cent.

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

|                  | SOC 1 | SOC 2 | SOC 3 | Weighted Average SOC1-3 |
|------------------|-------|-------|-------|-------------------------|
| <b>Increase</b>  | 54%   | 49%   | 65%   | 57%                     |
| <b>No change</b> | 6%    | 16%   | 14%   | 12%                     |
| <b>Decrease</b>  | 40%   | 35%   | 20%   | 31%                     |

*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 |
|------------------------|-------|-------|-------|-------------------------|
| <b>Expected Change</b> | 0.8%  | -0.2% | 8.3%  | 3.4%                    |

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



## Capacity Utilisation

While day rates have decreased, the volume of work undertaken by freelancers has also fallen but by a smaller magnitude. Typically, freelancers' capacity utilisation does not vary a great deal, but this quarter it has fallen to its second lowest level on record.

Freelancers' spare capacity 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 to take time off work.

In Q4 2018 freelancers spent 2.7 weeks without work (21% spare capacity), whereas in Q1 2019 their spare capacity has risen to 3.3 weeks or 25 per cent (Table 9). All three freelancer SOC groups experienced a rise in spare capacity. Freelancers in SOC3 technical occupations currently have the highest level of spare capacity, (28%) whereas the lowest level is experienced by SOC2 freelancers who have 22 per cent spare capacity.

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

|                 | SOC1 | SOC2 | SOC3 | Weighted Average SOC1-3 |
|-----------------|------|------|------|-------------------------|
| Quarter 1: 2019 | 3.3  | 2.9  | 3.7  | 3.3                     |
| Quarter 4: 2018 | 2.7  | 2.2  | 3.1  | 2.7                     |
| Quarter 3: 2018 | 2.5  | 2.5  | 3.6  | 2.9                     |
| Quarter 2: 2018 | 2.5  | 2.5  | 3.4  | 2.8                     |
| Quarter 1: 2018 | 2.1  | 2.3  | 3.5  | 2.7                     |

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



## Quarterly Earnings

With capacity utilisation falling to its second lowest level on record and day rates dropping by 15 per cent, it comes as no surprise that there has been a significant fall in quarterly earnings by 17 per cent in Q1 2019 (Table 10).

Freelancers earned an average of £20,474 in the first quarter of this year which is among the lower half of the distribution of earnings since surveys began. The rate is just £76 higher than the earnings in Q3 2018 – the last quarter of the six-month recession in the freelancer sector that occurred in 2018. It is also still just over twice the earnings of equivalent employees.

The quarterly earnings drop has occurred across all three freelancer SOC groups. However, SOC1 freelancers have been affected the most with the largest percentage and monetary fall in income 30 per cent and £10,260 respectively.

As a result, SOC1 freelancers find themselves in the rare situation of earning less than SOC2 freelancers. SOC2 and SOC3 freelancers experienced a fall in earnings by 10 per cent and nine per cent respectively. In sum, it has been a tough quarter in terms of earnings for freelancers in all three SOC groups.

**Table 10: Freelancers' average quarterly earnings**

|  | SOC1    | SOC2    | SOC3    | Weighted Average SOC1-3 |
|--|---------|---------|---------|-------------------------|
| Quarter 1: 2019  | £24,329 | £25,769 | £13,089 | £20,474                 |
| Quarter 4: 2018  | £34,589 | £28,715 | £14,329 | £24,776                 |
| Quarter 3: 2018  | £26,119 | £26,200 | £11,239 | £20,398                 |
| Quarter 2: 2018  | £28,332 | £25,325 | £11,459 | £20,797                 |
| Quarter 1: 2018  | £33,509 | £26,254 | £14,471 | £23,701                 |
| Quarterly equivalent employee earnings 2018 (ONS estimates*) | £12,689 | £9,793  | £8,607  | £10,133                 |

\*Employee earnings are based on Office for National Statistics (ONS) data on gross weekly earnings by employees from the provisional 2018 Annual Survey of Hours and Earnings, October 2018.

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



## Freelancers' Business Costs

In Q4 2018 freelancers were predicting significant increases in input price inflation and this expectation continues in Q1 2019. A very large majority of freelancers (74%) expect their input prices to rise, which is down slightly from 78 per cent last quarter (Table 11a).

Eleven per cent of freelancers also expect their input prices to fall which is marginally up from the eight per cent recorded last quarter. In terms of a net percentage increase in input prices, freelancers are forecasting a rise of 11.3 per cent over the next 12 months (Table 11b). This is down slightly from last quarter where it stood at 12.4 per cent.

Overall, input price inflation is expected to be high by any comparable measure and significantly higher than freelancers' output inflation (day rates increases) which was forecast to rise by just 3.4 per cent over the next 12 months.

The pattern across different freelancer occupational groups is fairly uniform. Across all SOC1-3, a total of 70 per cent or more predict a rise in input prices over the next 12 months. There is a little more variation in the proportion who predict a decline in input prices with the greatest proportion (18%) being SOC1 freelancers.

In terms of the net expected change in input prices, SOC3 freelancers expect the greatest increase at a rate of 14.1 per cent. SOC1 freelancers have the lowest input price inflation forecast at a rate of 8.2 per cent which is still high by any comparable measure and approximately four times the rate of UK inflation which at the time of writing was around two per cent. SOC2 freelancers predict a net input price inflation rate of 10.7 per cent.

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

|           | SOC1 | SOC2 | SOC3 | Weighted Average SOC1-3 |
|-----------|------|------|------|-------------------------|
| Increased | 70%  | 78%  | 74%  | 74%                     |
| No change | 12%  | 16%  | 17%  | 15%                     |
| Decreased | 18%  | 7%   | 9%   | 11%                     |

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

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

|                 | SOC1 | SOC2  | SOC3  | Weighted Average SOC1-3 |
|-----------------|------|-------|-------|-------------------------|
| Expected Change | 8.2% | 10.7% | 14.1% | 11.3%                   |

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

## Summary

So far 2019 has been a difficult year for freelancers. The freelance sector has started the year with a 17 per cent decline in quarterly earnings and a 15 per cent fall in day rates. Spare capacity has risen to 25 per cent.

The main cause of the decline in the freelance sector's performance is identified as the negative business consequences of Brexit followed by Government fiscal and regulatory policies. In the past freelancers have been able to overpower these negative influences by employing business strategies associated with reputation/brand building and innovation which have led to business growth. Unfortunately, the current economic challenges are so sufficiently great that freelancers have been unable to beat trends to generate positive performance for their businesses.

They remain concerned about the prospects for their business sector and particularly the UK economy over the next 12 months with freelance confidence indices relating to both of these being at negative values. Freelancers expect that their day rates will grow modestly by 3.4 per cent over the next 12 months, which implies that the year will end with quarterly earnings lower than at the end of last year.

Input price inflation is also expected to be challenging with the rate of expected change being 11.3 per cent for the next 12 months - approximately five times greater than the current rate of inflation in the UK. Freelancers have demonstrated in the past their ability to thrive through their own business initiatives and therefore, if Parliament can create a more conducive business environment, there is no reason to believe they wouldn't be able to do that once again.

## The Sample

The Confidence Index report for Q1 2019 was compiled from 920 IPSE and PeoplePerHour members who replied to an online survey. The survey is conducted every quarter. In Q1 2019, the survey composition of respondents was: 33 per cent female and 63 per cent male, with an average

age of 42, who have been freelancing for an average of 8.7 years and are highly educated – 28 per cent have a highest qualification at the postgraduate degree level while 57 per cent have a highest qualification at the undergraduate degree level.

# Authors and acknowledgements

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## 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.