

# Confidence Index

Q1  
2018



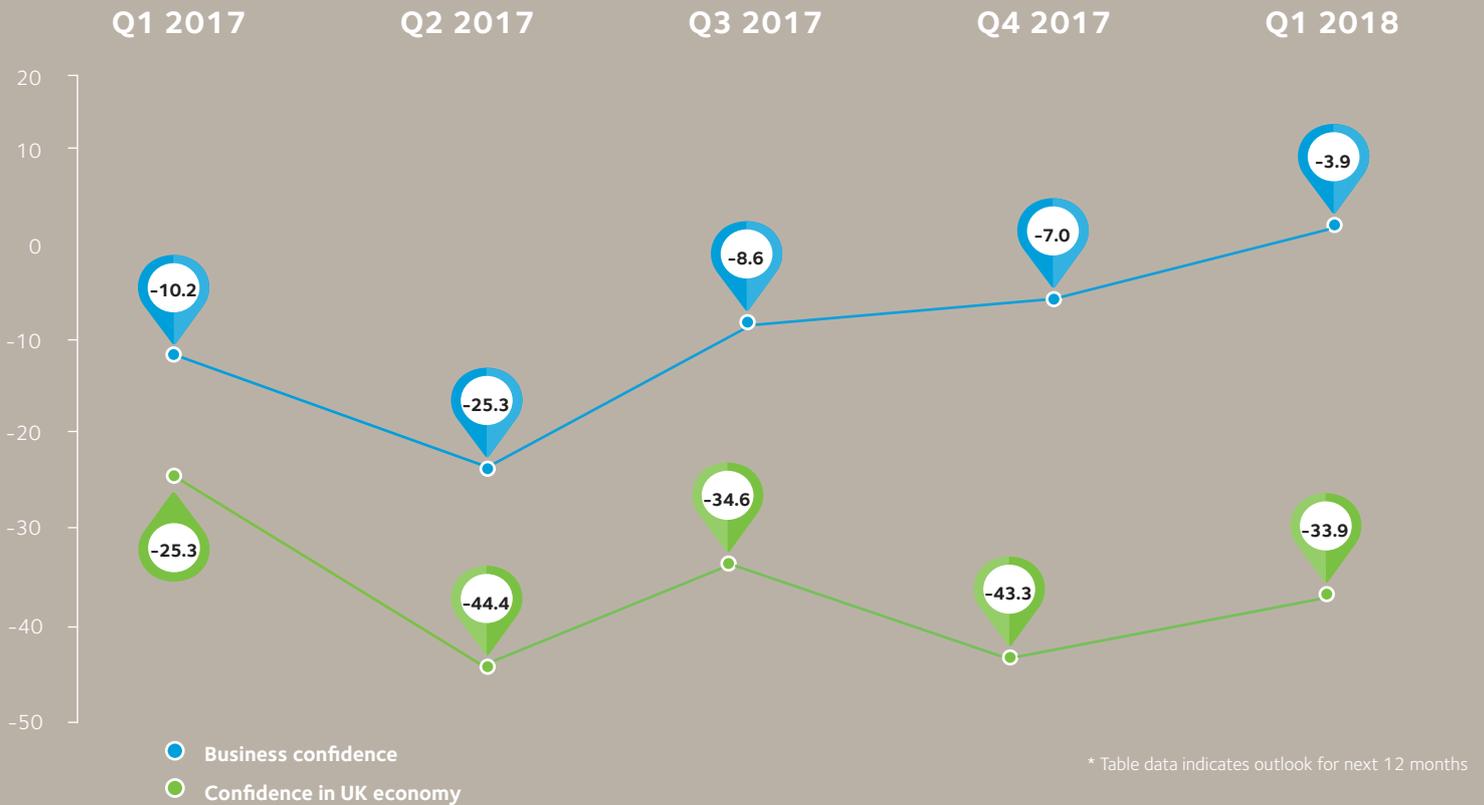
In association with:

# Freelance sector pulls out of recession but confidence levels remain low

Freelancer Confidence Index:

# -3.9

(From -100 to +100)



## Business cost

# 78%

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



## Demand for freelance work

Amount of time freelancers have been on assignment



## Top factors lowering business performance in Q1 2018



Over the last **12 months** freelancers have been on assignment for, on average, **80%** of the time

# Defining freelance status

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

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

## Executive Summary

### Freelancer Business Confidence Index

- Freelancers expect their businesses performance to improve in quarter two (Q2) 2018 but to decline over the next 12 months.
- Government taxation and regulatory policies relating to freelance working are the main constraints on business performance while Brexit is now the third most detrimental influence.
- Building a strong brand and reputation continues to feature as the main positive driver of business performance.

### Freelancer UK Economy Confidence Index

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

### Day Rates

- The recent decline in freelancers' day rates has stopped with a six per cent rise in day rates occurring in the Q1 of 2018.

### Capacity Utilisation

- Capacity utilisation is measured by the number of weeks without work per quarter out of a maximum of 13 weeks.
- Spare capacity fell slightly from 22 per cent in Q4 2017 to 21 per cent in Q1 2018 - equating to 2.7 weeks without work.

### Quarterly Earnings

- Quarterly earnings move out of recession and increase by 13 per cent over the first quarter of the year.
- Freelancers' quarterly earnings now stand at £23,701 which is well over twice that of equivalent employees.
- However, despite this rise, earnings are still 18 per cent lower than Q2 2017 which was just before the recession in the second half of last year occurred.

### Freelancers' Business Costs

- Freelancers expect the inflationary pressure on their businesses to intensify resulting in an increase in their input price inflations forecast for the next 12 months from 10 per cent to 12 per cent since last quarter.



## Economist's Perspective

If you had listened to the Chancellor deliver his Spring Statement, you might be forgiven for thinking that everything is going as planned in the economy. This is not the case however with freelancers indicating that they are still not confident about the UK economy. The forecasts only seemed so good when compared with the Autumn Budget delivered in 2017.

Unsurprisingly, Brexit is still contributing to falling confidence amongst freelancers. However, unlike quarter four (Q4) 2017, Brexit is not the number one factor lowering business performance. Government's policy relating to freelancing and the Government's regulation relating to hiring freelancers both come out ahead. Regulation relating to hiring freelancers may become more prominent if IR35 is rolled out to the private sector.

In the latest meeting between the Monetary Policy Committee it was decided that interest rates should not be raised from 0.5 per cent. The next meeting will be published on 10 May and it is not fully clear whether rates will go up or not, due to some disappointing figures relating to economic growth (0.1 per cent in Q1 2018) and slow service sector growth.

If interest rates were to rise, it would mean that the cost of borrowing would go up. If a freelancer has borrowed to invest, or to aid with cash flow due to late payment problems, this would mean that their costs would increase. This may explain why 78 per cent of freelancers anticipate that their input costs will rise over the next 12 months.

When the Chancellor delivered his Autumn Budget, freelancers breathed a sigh of relief. The rumours regarding the VAT Threshold had turned out to be false. However, at the Spring Statement, the Chancellor announced that there would be a call for evidence on the VAT Threshold, which may mean that it is lowered from £85,000.

Since the Spring Statement, we have had some good news on employment and inflation figures. Employment is up 497,000 in comparison to this time last year, and self-employment remained stable. A telling sign that the labour market transition is here to stay. On inflation, the rate has fallen to 2.5 per cent meaning that for the first time in a long time, wages are outpacing inflation. As a result of strong employment figures and declining inflation, freelancers are seeing growth in their earnings.

Average day rates have risen from £407 to £430 between Q4 2017 and Q1 2018. This is a six per cent increase in average day rates – far higher than the inflation rate of 2.7 per cent. Average quarterly earnings increased from £20,970 to £23,701 – an increase of 13 per cent. Fifty-eight per cent of freelancers expect their day rate to increase over the next 12 months with the increase expected to be 7.5 per cent. If this was to happen, it means that freelancers will experience a pay increase in real terms.

The self-employed workforce contributes £271 billion to the UK economy so it is important that their issues are listened to and the Government produces policies that will support them. As we head into the final nine months of our European Union membership, it is crucial that we maintain our competitive advantage over our neighbours.



## Freelancer Business Confidence Index

During Q4 2017, the freelance sector entered recession with two consecutive quarters of declining earnings. At that time Brexit negotiations with the EU were in difficulty over the Northern Ireland border issue with an increased probability of exit without a deal. This fed into freelancers' concerns about the future of the economy and their businesses. Since then Brexit negotiations have improved with the 'no deal' option seeming less likely and a subsequent rise in the value of Sterling.

These events are evident in the freelance confidence index for Q1 2018. The business confidence index for the three-month outlook has moved into positive territory with a small majority of freelancers expecting their business performance to improve in Q2 2018 (Table 1). This improvement in short-term business confidence occurs across all three standard occupations groups observed in this report: 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 1: 2018 | 13.2  | 0.5   | 5.9   | 6.1                     |
| Quarter 4: 2017 | 10.0  | -8.2  | 1.1   | -0.1                    |
| Quarter 3: 2017 | 6.5   | -3.8  | 6.5   | 2.8                     |
| Quarter 2: 2017 | -11.4 | -10.5 | -14.3 | -12.2                   |
| Quarter 1: 2017 | -6.4  | -6.6  | -1.4  | -4.5                    |

*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 2017.*

The freelancer business confidence index for the next 12 months continues to report a negative score, indicating that the performance of the freelance business sector is expected to decline (Table 2). The nadir of low confidence reported after the EU referendum results were announced occurred in Q2 2017. Since then the 12-month business confidence index has gradually recovered with negative scores moving from -25.3, to -8.6, then to -7, and now to -3.9.

For the first time since Q4 2016, the 12-month business confidence index is fairly close to positive values. This is reassuring given the relatively poor performance of the freelance sector experiencing recession over the last two quarters of 2017.

Not all freelance occupational groups share the aggregate trend. The increase is mainly driven by SOC1 and SOC3

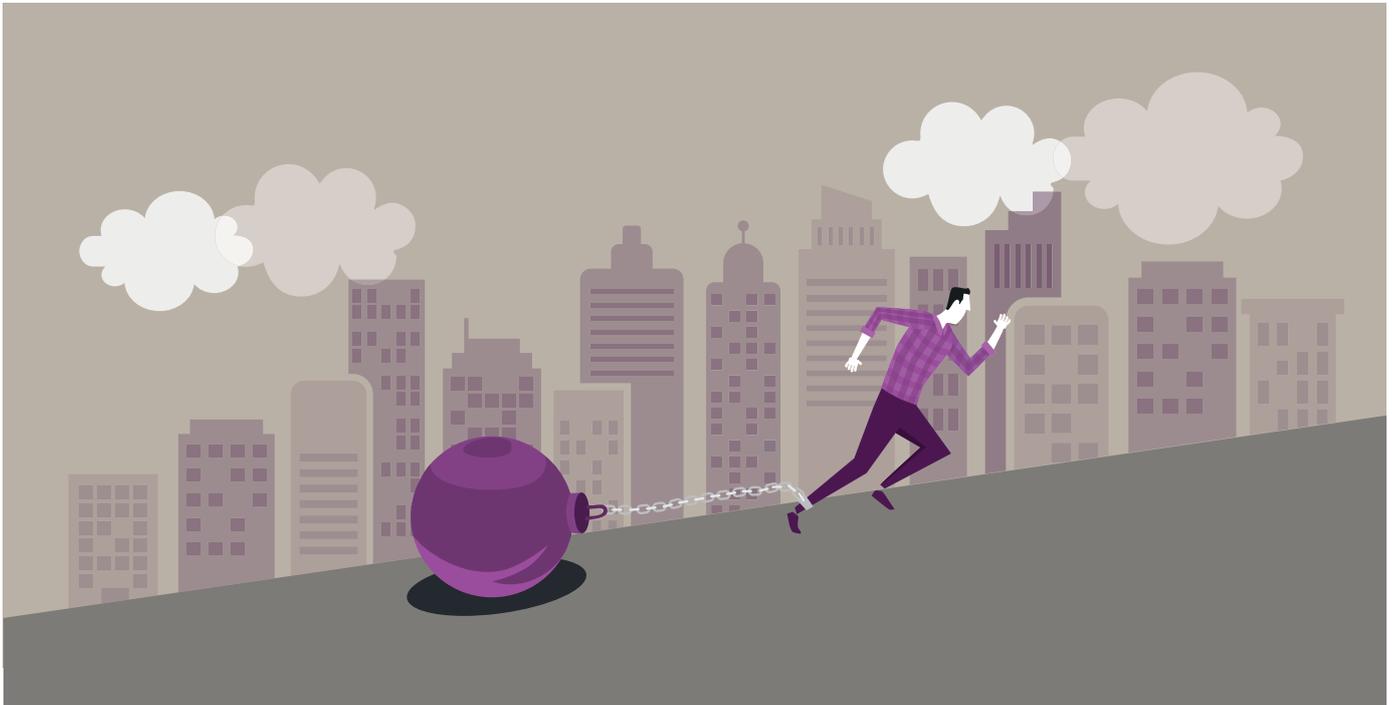
freelancers who experienced a major improvement in business confidence since Q2 2017. Currently, SOC1 freelancers have a marginally negative score of -2.6, while SOC3 freelancers have moved into a marginally positive territory. By contrast, SOC2 freelancers are still in strong negative territory with confidence index score of -13.7.

This indicates that freelancers in professional occupations expect the change in their business performance to worsen in comparison with both managers, directors and senior officials and freelancers in associate professional and technical occupations. Overall, all three groups have greater confidence than last quarter in terms of both the three-month and 12-month outlook on their business performance. However, this is not enough for them to predict an improvement in their business performance over the next 12 months.

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

|                 | SOC1  | SOC2  | SOC3  | Weighted Average SOC1-3 |
|-----------------|-------|-------|-------|-------------------------|
| Quarter 1: 2018 | -2.6  | -13.7 | 3.7   | -3.9                    |
| Quarter 4: 2017 | 3.8   | -20.9 | -0.8  | -7.0                    |
| Quarter 3: 2017 | -15.4 | -17.6 | 4.0   | -8.6                    |
| Quarter 2: 2017 | -25.0 | -24.2 | -26.4 | -25.3                   |
| Quarter 1: 2017 | -13.1 | -15.6 | -3.4  | -10.2                   |

*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 2017.*



## Factors Affecting Business Performance

The top three factors which have a negative effect on freelancers' business performance have remained unchanged since the last survey. However, the rank order has changed. In Q4 2017, 61 per cent of freelancers cited the outcome of the EU referendum as having a negative effect on their business performance. In Q1 2018 this figure has dropped slightly to 57 per cent (Table 3).

This drop was enough to move it from the top to the third most prominent factor negatively influencing business performance. It has been replaced by Government fiscal policy relating to freelancers which was cited by 58 per cent of freelancers last quarter and increased to 61 per cent in the current quarter. Government regulation in relation to hiring freelancers is also cited again as detrimental influence on business performance. This factor has risen marginally from 58 per cent in the last quarter to 60 per cent in the current quarter.

There is variation in negative influences on business performance across the different occupational groups of freelancers (Table 3). It is notable that the top negative factor cited by each occupational group remains unchanged from those reported in the last quarterly survey. Namely, Government regulation is still cited by SOC1, fiscal policy by SOC2 and the outcome of the EU referendum by SOC3 freelancers.

We have noted in previous reports that SOC3 freelancers' seem more affected by the international market than SOC1 and SOC2 freelancers. Therefore, it is perhaps not surprising that they are more concerned about the outcome of the EU referendum. This observation is also backed up by the fact that this quarter SOC3 freelancers cite the change in the value of Sterling and competition with other freelancers as the other two top negative influences on their business performance.

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

| Rank | SOC1   | SOC2   | SOC3   | Weighted Average SOC1-3                                      |
|------|--|--|--|--|
| 1    | Government regulation relating to hiring freelancers (71.1%) | Government's fiscal policy relating to freelancing (80.9%)   | Outcome of the EU referendum (55.4%)                     | Government's fiscal policy relating to freelancing (60.7%)   |
| 2    | Government's fiscal policy relating to freelancing (67.6%)   | Government regulation relating to hiring freelancers (80.6%) | Level of competition from other freelancers (53.0%)      | Government regulation relating to hiring freelancers (60.3%) |
| 3    | UK GDP growth/state of UK economy (58.3%)                    | Outcome of the EU referendum (61.0%)                         | Change in the value of UK Sterling exchange rate (46.3%) | Outcome of the EU referendum (57.3%)                         |

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.

Similarly to last quarter, brand and reputation building remains the top factor enhancing freelancers' business performance (Table 4). The importance of this factor grew even further as the number of freelancers identifying it as a positive factor has increased from 66 per cent in Q4 2017 to 73 per cent in Q1 2018. It is also notable, that this factor is cited as the most significant positive driver of business performance by all three occupational groups SOCs1-3.

Innovation in terms of services offered to clients falls from second to third most important positive factor since last quarter. However, that fall in rank position is misleading as

a greater proportion (57%) of freelancers identify it as a positive influence in the current quarter in comparison with last quarter (54%).

Teamwork and networking make a clear rise to second most positive influence, with 58 per cent of freelancers identifying it as an important factor in securing more work and enhancing business performance. This change is notable as in the last quarter not a single occupational group identified this as one of their top three positive influences.

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

| Rank | SOC1  | SOC2  | SOC3  | Weighted Average SOC1-3   |
|------|---|---|---|---|
| 1    | My brand value/reputation in the market (73.0%)                             | My brand value/reputation in the market (68.8%)             | My brand value/reputation in the market (76.5%)                             | My brand value/reputation in the market (72.9%)                             |
| 2    | Innovation in terms of the services I offer clients (73.0%)                 | Growth of the sector in which I work (57.4%)                | Collaboration with other freelancers/businesses to secure more work (56.5%) | Collaboration with other freelancers/businesses to secure more work (58.4%) |
| 3    | Collaboration with other freelancers/businesses to secure more work (70.3%) | Innovation in terms of the services I offer clients (53.0%) | Targeting new markets (55.7%)   | Innovation in terms of the services I offer clients (57.2%)                 |

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



## Freelancer UK Economy Confidence Index

Since Q1 2016 freelancers have been more negative about the prospects for the UK economy than their own businesses. This view is somewhat justified as for the most part, freelancers taking part in our survey tend to outperform the economy in terms of earnings growth. Likewise, they can take much confidence in their predictions as they have continued to accurately forecast changes in the performance of the UK economy. Therefore, it is concerning that freelancers continue to predict the deterioration of the UK economic performance over the next 12 months.

The three-month freelancer UK economy confidence index improves marginally but is still solidly negative with a value of -15.5 (Table 5). This negative outlook is forecast by all three standard occupational groups. SOC3 freelancers are the most downbeat group. This is consistent with the view that they are more immersed in an international market and more conscious that Brexit may isolate the UK from the EU – the biggest single consumer market in the World.

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

|                 | SOC1  | SOC2  | SOC3  | Weighted Average SOC1-3 |
|-----------------|-------|-------|-------|-------------------------|
| Quarter 1: 2018 | -9.0  | -16.5 | -19.3 | -15.5                   |
| Quarter 4: 2017 | -18.3 | -30.9 | -28.7 | -27.0                   |
| Quarter 3: 2017 | -28.8 | -21.7 | -14.0 | -20.4                   |
| Quarter 2: 2017 | -37.0 | -36.6 | -29.7 | -34.0                   |
| Quarter 1: 2017 | -20.9 | -15.6 | -13.6 | -16.1                   |

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

Freelancers' 12-month economic outlook is even gloomier, albeit slightly less negative than last quarter. The 12-month index score is strongly negative at -33.9 in the first quarter of this year (Table 6). This forecast is consistently negative across all three standard occupational groups of freelancers (SOCs1-3).

As we continue to observe throughout the Confidence Index surveys, freelancers are skilled economic forecasters. SOCs1-3 frequently participate in business projects that involve growth, innovation, transformation and entrepreneurship. Hence, they are in a position to be among the first to learn about scaling up/down of activities in these key areas affecting economic growth.

In this light, the data in Table 6 appears to mark a structural change in the UK economy following the result of the EU referendum. Up until the EU referendum, the freelancer UK economy index was typically positive with freelancers accurately forecasting growth in the UK economy.

After the announcement of the EU referendum result, both the three-month and 12-month economy confidence index scores moved immediately to negative values. They have consistently remained negative ever since, after a false dawn in Q4 2015. Despite the variation in visions for a post-Brexit UK and the varied permutations in negotiations with the EU, freelancers have hardly at any point had confidence that the economy will return to the positive pre-EU referendum growth path.

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

|                 | SOC1  | SOC2  | SOC3  | Weighted Average SOC1-3 |
|-----------------|-------|-------|-------|-------------------------|
| Quarter 1: 2018 | -39.7 | -30.8 | -32.5 | -33.9                   |
| Quarter 4: 2017 | -34.1 | -46.0 | -46.3 | -43.3                   |
| Quarter 3: 2017 | -38.5 | -37.0 | -30.0 | -34.6                   |
| Quarter 2: 2017 | -54.3 | -50.7 | -32.4 | -44.4                   |
| Quarter 1: 2017 | -23.3 | -27.2 | -24.8 | -25.3                   |

*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 2017.*



# Freelancer Day Rates

Freelancers’ day rates dropped from £501 in Q1 2017 to £430 in Q1 2018, representing a 14 per cent decline over the last year (Table 7). Most of this decline occurred over the last half of 2017. While day rates increased with six per cent since last quarter, they fail to reach the level achieved a year ago.

This aggregate trend is comprised of varied day rate experiences across the three standard occupational groups. SOC1 freelancers (managers, directors and senior officials) are achieving similar day rates to what they were earning in the same quarter last year. Meanwhile, SOC2 (professional occupations) freelancers experienced a five per cent fall in their day rates over the same period.

Therefore, the aggregate 14 per cent decline in day rates has largely been driven by a major fall in day rates among SOC3 freelancers (associate professional and technical occupations) who witnessed a 36 per cent fall from £465 in Q1 2017 to £299 in Q1 2018.

It is clear that sectoral-specific effects such as high levels of competition in this sector, the fall in the value of Sterling and generally less buoyant economic conditions have played a role in causing a drop in the SOC3 day rates. However, survey sample variation may also play a role.\* Therefore, while there is no doubt that SOC3 freelancers are having a tough time in terms of day rates, we do not think they are as extreme as the one third fall suggested by the data.

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

|                        | SOC1 | SOC2 | SOC3 | Weighted Average SOC1-3 |
|------------------------|------|------|------|-------------------------|
| <b>Quarter 1: 2018</b> | £542 | £490 | £299 | £430                    |
| <b>Quarter 4: 2017</b> | £516 | £493 | £261 | £407                    |
| <b>Quarter 3: 2017</b> | £591 | £532 | £387 | £489                    |
| <b>Quarter 2: 2017</b> | £619 | £542 | £452 | £525                    |
| <b>Quarter 1: 2017</b> | £539 | £515 | £465 | £501                    |

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

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

The day rate rise that occurred in Q1 2018 was predicted in the last quarterly survey with 52 per cent of freelancers expecting their day rates to increase over the next 12 months. In fact, last quarter a large majority (71%) of SOC3 freelancers expected their day rates to increase over the next 12 months. That appears to be well underway with their day rates increasing by 15 per cent from £261 last quarter to £299 in the current quarter (Table 7).

This quarter a large majority (67%) of SOC3 freelancers continue to predict increase in day rates. Therefore, we can expect the recovery of SOC3 day rates to continue (Table 8a). Across all three occupational groups, a majority of freelancers predict a rise in day rates over the next 12 months. Overall, 58 per cent of freelancers – up from 52 per cent last quarter – expect their day rates to increase over this period.

Table 8b shows that freelancers predict the materialisation of this rise with an overall 7.5 per cent increase in day rates. Notably, SOC3 freelancers expect a 12 per cent increase, indicating that they forecast a major recovery in day rates following the steep decline in 2017. By contrast, SOC2 freelancers expect their day rates to remain largely unchanged over the next 12 months. SOC1 freelancers expect a near ten per cent increase in day rates.

Overall, the varied day rate performance across freelancer occupational groups looks set to continue. But on aggregate, freelancer day rates are expected to rise significantly above the rate of consumer price inflation (but below the rate of input price inflation for their businesses – see the discussion around table 11b below).

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

|           | SOC 1 | SOC 2 | SOC 3 | Weighted Average SOC1-3 |
|-----------|-------|-------|-------|-------------------------|
| Increase  | 52%   | 52%   | 67%   | 58%                     |
| No change | 30%   | 16%   | 15%   | 20%                     |
| Decrease  | 17%   | 31%   | 18%   | 22%                     |

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

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

|                 | SOC 1 | SOC 2 | SOC 3 | Weighted Average SOC1-3 |
|-----------------|-------|-------|-------|-------------------------|
| Expected Change | 9.8%  | 0.1%  | 12.4% | 7.5%                    |

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



## Capacity Utilisation

We measure freelancer capacity utilisation by the number of weeks without work per quarter out of a maximum of 13 weeks. Spare capacity has changed very little since last quarter falling from 22 per cent to 21 per cent (Table 9). We note that 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.

When asked about their spare capacity in the survey, freelancers also include the time they take off from work to go on a holiday/take a break. Therefore, this quarters' spare capacity of 2.7 weeks also includes any holiday periods.

Adjusting capacity utilisation to allow for 1.5 weeks holiday per quarter would indicate that the average freelancer is working fairly close to full capacity (e.g. just 1.2 weeks of spare capacity in the current quarter). There is some variation across standard occupational groups with SOC3 freelancers having more than a week of extra spare capacity compared to SOC1-2 freelancers. This reflects the tougher business environment which SOC3 freelancers have been operating in recently.

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

|                 | SOC1 | SOC2 | SOC3 | Weighted Average SOC1-3 |
|-----------------|------|------|------|-------------------------|
| Quarter 1: 2018 | 2.1  | 2.3  | 3.5  | 2.7                     |
| Quarter 4: 2017 | 3.3  | 2.5  | 2.7  | 2.8                     |
| Quarter 3: 2017 | 3.3  | 2.9  | 1.8  | 2.6                     |
| Quarter 2: 2017 | 1.2  | 2.2  | 2.9  | 2.2                     |
| Quarter 1: 2017 | 1.4  | 2.3  | 1.9  | 1.9                     |

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



## Quarterly Earnings

Freelancers' quarterly earnings have grown by an impressive 13 per cent in Q1 2018, leading to an increase in pre-tax income of £2,731 since last quarter. As we have noted earlier, this growth is mainly driven by a rise in day rates rather than an increase in the volume of business. Freelancers' quarterly earnings now stand at £23,701 which (based on the latest available ONS data) indicates that they continue to earn well over twice the earnings of equivalent employees (Table 10).

Managers, directors and senior officials (SOC1) are the primary drivers of this outcome with quarterly earnings rising by seven per cent compared to the same quarter last year. SOC2 and SOC3 freelancers also experienced a rise in

quarterly earnings. However, the earning levels are still lower than those secured in the same quarter last year for both of these occupational groups. SOC2 freelancers have done better than SOC3 freelancers with earnings just four per cent short of those in the same quarter last year.

By contrast, SOC3 freelancers' quarterly earnings are 45 per cent below those of last year. However, in terms of quarterly change all three occupational groups have experienced an increase in earnings since last quarter and are still earning substantially more than equivalent employees. Overall, times have been hard recently – particularly for SOC3 freelancers. However, the circumstances are improving, and freelancers' earnings remain greater than those of equivalent employees.

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

|  | SOC1    | SOC2    | SOC3    | Weighted Average SOC1-3 |
|--|---------|---------|---------|-------------------------|
| Quarter 1: 2018  | £33,509 | £26,254 | £14,471 | £23,701                 |
| Quarter 4: 2017  | £25,281 | £25,854 | £13,809 | £20,970                 |
| Quarter 3: 2017  | £27,785 | £26,701 | £22,174 | £25,179                 |
| Quarter 2: 2017  | £36,733 | £29,313 | £23,583 | £28,847                 |
| Quarter 1: 2017  | £31,395 | £27,402 | £26,168 | £27,832                 |
| Quarterly equivalent employee earnings 2017 (ONS estimates*) | £12,505 | £9,550  | £8,330  | £9,783                  |

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

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



## Freelancers' Business Costs

In the last quarterly report freelancers predicted double-digit input price inflation for their businesses over the next 12 months. This continues in Q1 2018 with 78 per cent of freelancers predicting a rise in input price over the next 12 months. Only eight per cent expect to experience a fall (Table 11a). Overall, freelancers' predictions translate into an 11.6 per cent increase in input prices over the next twelve months (see Table 11b) – up from the 10.3 per cent forecast last quarter.

The belief that input price inflation will increase is fairly emphatic across all occupational groups. The only variation is from a low of 72 per cent among SOC3 freelancers to a high of 88 per cent among SOC1 freelancers (Table 11a). There is, however, more variation in freelancers' expectations of input price change across the three occupational groups (Table 11b). Both SOC2 and SOC3 freelancers expect input

prices to rise by around nine per cent. SOC1 freelancers expect much greater increase of 17.9 per cent.

It is notable that freelancers expect input prices to increase more than day rates (i.e. 11.6% compared to 7.5%). However, freelancers' day rates are typically a small proportion of their earnings (e.g. 10–15%). This combined with the fact that capacity utilisation remained static this quarter means that freelancers' profits can be expected to rise over the next 12 months.

Inputs to conducting a freelance business are not that specialised but rather fairly generic, including transport, accommodation, software, IT/communications and others. Therefore, if freelancers are correct, then it appears that one can expect greater inflationary pressure for UK businesses in general.

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

|           | SOC1 | SOC2 | SOC3 | Weighted Average SOC1-3 |
|-----------|------|------|------|-------------------------|
| Increased | 88%  | 76%  | 72%  | 78%                     |
| No change | 8%   | 19%  | 15%  | 14%                     |
| Decreased | 4%   | 5%   | 13%  | 8%                      |

*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 | 17.9% | 9.0% | 9.5% | 11.6%                   |

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

# Summary

The UK freelance sector has pulled out of the recession it experienced in the second half of 2017. In Q1 2018 freelancer day rates and earnings have increased but are still considerably below previous highs. Freelancers expect their earnings to continue to recover over the next 12 months. This involves a 7.5 per cent increase in day rates and a further increase in overall earnings. However, while business confidence has improved it is still low. The 12-month freelance business confidence index has a marginally negative value, indicating that a small majority of freelancers expect business conditions to get worse over the next 12 months.

Government taxation policy and regulation relating to hiring freelancers are identified as the two main constraints on freelancer business performance. Brexit is also recognised as one of the top three negative influences on business performance. There is now enough data to show that the result of the EU referendum is associated with a huge structural change in freelancers' business confidence. This is manifested by a major loss of confidence in both freelancers' business prospects and even more so in the performance of the UK economy. Prior to the EU referendum, freelancers typically had a confident outlook on their businesses and the economy. However, they predicted a downturn in their business and the economy following the result of the EU referendum and these forecasts proved to be correct. Their sector is still trying to recover losses in day rates and earnings suffered during that downturn. On the positive side, freelancers have been driving their business performance by adopting firm-level strategies such as building brand and reputation, collaborating with other freelancers and innovating the services they offer to customers.

## The Sample

The IPSE quarterly Freelancer Confidence Index report for Q1 of 2018 was compiled from 690 IPSE and PeoplePerHour (PPH) members who replied to an online survey. The survey is conducted every quarter. In Q1 2018, the survey composition of respondents was: 24 per cent female and 74 per cent male, an average age of 45, have been freelancing

Freelancers from associate professional and technical occupations (SOC3) have been the most adversely affected. They experienced a greater fall in day rates and quarterly earnings in comparison with freelancers in SOCs1-2. This group did not only experience more intense competition within their market segment but was also most negatively affected by Brexit and the fall in the value of Sterling. Therefore, this appears to be a group more susceptible to international influences than SOCs1-2.

Freelancers also predict that the UK economy will have a tough time over the next 12 months. The freelancer economy confidence index for this period is strongly negative. This indicates that freelancers expect that economic growth will underperform current levels over the next 12 months. They believe that this will also take place in an inflationary environment where the input prices for their businesses will increase by nearly 12 per cent. In short, there is potential for stagflation.

Freelancers believe that much of this adverse business environment is self-inflicted by Government policy. Their concern is related to the impact of Brexit on the UK economy and the impact of regulation and fiscal policy on their own business sector. Since the advent of the survey, however, we have observed freelancers outperforming the economy by using firm-level strategies. Their overriding innovative and rapidly changing business environment seems set to persist. Consequently, there is a cause to believe that these strategies will continue to generate good performance for freelancers in the near future.

for an average of 8.8 years and are highly educated – 30 per cent have a highest qualification at the postgraduate degree level while 54 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.