

Confidence Index

Q3 2018



In association with:



Government policy pushes freelance sector into decline

Freelancer Confidence Index:

-3.5

(From -100 to +100)



Business cost

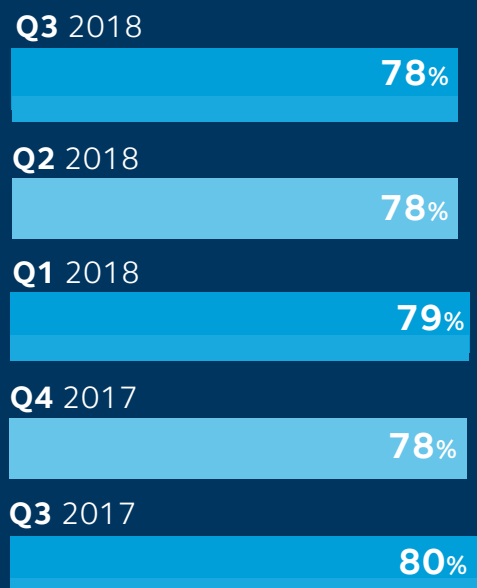
75%

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

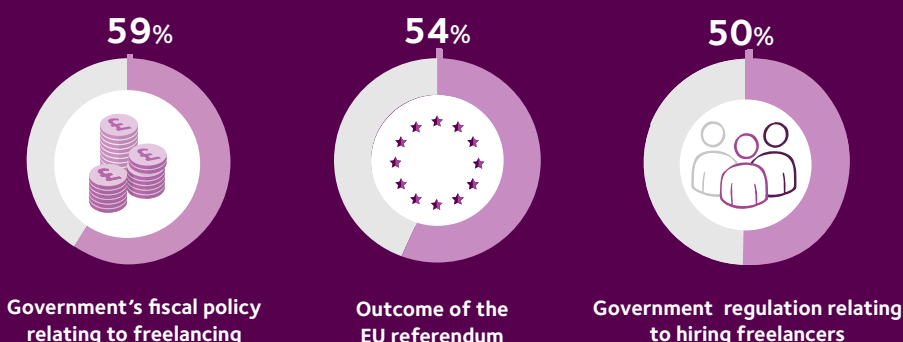


Demand for freelance work

Amount of time freelancers have been on assignment



Top factors lowering business performance in Q3 2018



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

Defining freelance status

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

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

Executive Summary

There is no avoiding the fact that the freelance sector has had a difficult few months. Freelancers' average day rates and quarterly earnings have fallen. Their confidence in the performance of their businesses and of the wider economy is in decline too. And many lay the blame squarely at the feet of government policy – most likely because of speculation about harmful measures in the recent Budget.

This quarter, freelancers' confidence in their own yearly business performance dropped by nine points – pushing it into negative territory. Their confidence in the wider economy was already in extremely negative territory too, but this quarter it fell even further – by another two points.

It is likely freelancers' confidence has been falling because of speculation about the Autumn Budget. In late September, when the Confidence Index survey was carried out, there were widespread rumours that the unpopular changes to IR35 self-employed tax law would be extended to contractors in the private sector. In fact, it was speculated the changes would come in as early as April 2018. This quarter – seemingly in response to this – freelancers reported that the force most likely to negatively affect their business performance was government fiscal policy.

Freelancers even said "Government's fiscal policy relating to freelancing" was more likely to harm their businesses than Brexit – despite the increasing uncertainty and negative headlines in the media about the progress of the negotiations. This suggests that the announcements in the Budget – and government policy on self-employment in general – are very serious concerns for freelancers.

Freelancers' lack of confidence this quarter was also exacerbated by rising financial pressure. They saw their average day rates fall by £2 this quarter after a drop of £36 in Q2 2018. The demand for their work also dropped slightly by 0.2 weeks since the beginning of the year (Q1 2018).

This contributed to average quarterly earnings falling by almost £400 in the last three months – after a drop of nearly £3000 the quarter before. Added to all this, freelancers also expect their business input costs to rise over the next 12 months, by an average of 11.3 per cent.

The news isn't all bad for freelancers, however. Among SOC2 (professional occupations) freelancers, there was actually an increase in quarterly earnings. There was also an increase in average day rates for both SOC2 (professional occupations) and SOC3 (associate professional and technical occupations). Just over two thirds (67%) of freelancers also expect their day rates to increase over the coming year, with an average anticipated rise of 7.9 per cent.

Freelancers are also less pessimistic about the performance of their businesses and the economy in the short term. Their confidence in their businesses over the next three months has dropped three points since last quarter but remains in positive territory. Their confidence in the performance of the wider economy over the next three months was already negative and fell further this quarter – but it is still nowhere near the depths of their 12-month confidence levels. This reinforces the idea that this quarter freelancers were most worried about potential changes in the Autumn Budget – because it was expected the IR35 changes would come into effect six months later, in April 2019.

Overall, the freelance sector seems to be suffering from a loss of confidence and material decline. Last quarter, Brexit uncertainty was already driving down the performance of the sector, but now fears about government taxation seem to have surpassed even that.

Since it turned out that the rumours about the Budget were correct – and the changes to IR35 will be extended (although in April 2020 not 2019) – it is also likely that worries about government taxation policy will worsen. If the government wishes to maintain this £271 billion a year industry, it will need to not only secure a Brexit deal that works for the self-employed, but also address freelancers' very serious concerns about its Budget measures.



Freelancer Business Confidence Index

The freelance business sector had a tough second quarter (Q2) this year, with earnings falling by 12.3 per cent. As a result, most freelancers expected things would improve in the following three months. On the contrary, however, the decline in quarterly earnings continued in Q3, pushing the sector into recession (defined as two consecutive quarters with negative income change).

After the results of the EU referendum, freelancer business confidence index scores became strongly negative as freelancers predicted their business performance would worsen. These forecasts proved accurate as the freelance sector suffered a recession in the second half of 2017. Now, after a brief improvement in Q1 2018, quarterly earnings have declined again in Q2.

However, the three-month business outlook for the rest of 2018 is marginally positive with an index score of +5.1 (Table 1). If this proves to be correct, the freelance sector will move immediately back out of recession in the last quarter of this calendar year.

This optimistic belief that there will be a positive final quarter comes mostly from Standard Occupational Codes (SOCs) 1 and 3 – managers, directors and senior officials, as well as associate professional and technical occupations. Both these groups returned a positive three-month confidence index score (Table 1). By contrast, SOC2 freelancers (from professional occupations) expect the recession to continue over the last quarter of this year, with a confidence index score of -6.4.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 4: 2017	10.0	-8.2	1.1	-0.1
Quarter 3: 2017	6.5	-3.8	6.5	2.8

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 marginally negative with a score of -3.5. This is mainly driven by a significant loss of confidence among SOC2 freelancers, who returned a score of -24.9 (Table 2). SOC1 freelancers are less confident about the performance of their businesses over the next 12 months than over the next three months, with a business confidence index score of 4.2 for the former and 13.5 for the latter.

By contrast, SOC3 freelancers are more uniform in their business confidence over the next three months and the next 12 months, with an index score of just over nine points in each case. There is therefore some diversity in the business confidence of the freelance sector: there is a marginally positive outlook in both the SOC1 and SOC3 groups, but a broadly negative outlook in SOC2. As a result, overall there is a marginally negative 12-month outlook and a marginally positive three-month outlook. In short: a good end to 2018, followed by a tough 2019.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 4: 2017	3.8	-20.9	-0.8	-7.0
Quarter 3: 2017	-15.4	-17.6	4.0	-8.6

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 results of the confidence index surveys over the last four years suggest that freelancers are having to develop their business strategies in an environment where opportunities and threats last for sustained periods. Yet again, this quarter there are relatively small changes in the order of the positive and negative factors affecting the performance of the freelance sector.

This, however, clouds the reality that threats to freelancer businesses are laden with uncertainty, hence making business planning extremely challenging. The big game changer has been the result to the EU referendum, which caused freelancers' confidence in both their business sector and the UK economy to decline.

Uncertainty here stems not only from the risk of being cut off from the EU market but also the high levels of uncertainty about the form Brexit may take: with the possibility of a referendum re-run and a no-deal Brexit both plausible outcomes during the period when the survey was carried out.

In Q2 the most highly cited (56.1%) constraint on business performance was the EU referendum result. In Q3 this has dropped slightly to 53.6 per cent while Government fiscal policy relating to freelancers has risen from 50.9 per cent to 58.6 per cent, making it the top negative factor impacting business performance (Table 3). Government regulation relating to hiring freelancers continues to be the third most negative effect on freelancers' business performance.

All three freelancer occupational groups uniformly cite the outcome of the EU referendum as the third most important negative influence on business performance. Thereafter, the threats freelancers perceive to their business performance are very diverse.

As noted in previous surveys, SOC3 freelancers appear to conduct their businesses in a more highly competitive market, which this quarter scores as the top negative factor affecting the performance of this group, followed by changes in the value of Pound Sterling. Based on the top three negative factors affecting this cohort, it is clear that they are operating in a significantly international market, facing competition from overseas freelancers.

The top three factors negatively affecting the business performance of SOC1 and SOC2 freelancers are identical, and all are related to government policies. Taxation relating to freelancing is seen as the top negative factor for these groups, followed by Government policy on hiring freelancers and the impact of leaving the EU.

The results indicate the importance of freelancer organisations like IPSE influencing government policy – as well as freelancers being able to deal with adverse public policy situations, for example maintaining their businesses in post-Brexit UK and limiting the negative impact of regulations relating to taxation and hiring practices.

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 (50.0%)	Government's fiscal policy relating to freelancing (79.2%)	Level of competition from other freelancers (56.8%)	Government's fiscal policy relating to freelancing (58.6%)
2	Government regulation relating to hiring freelancers (47.9%)	Government regulation relating to hiring freelancers (75.2%)	Change in the value of UK Sterling exchange rate (50.4%)	Outcome of the EU referendum (53.6%)
3	Outcome of the EU referendum (45.8%)	Outcome of the EU referendum (65.3%)	Outcome of the EU referendum (48.8%)	Government regulation relating to hiring freelancers (50.3%)

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.

Turning to the positive influences on business performance, Government policy is notably absent. Readers of earlier reports will be familiar with the finding that freelancers' businesses have thrived mainly due to their own strategic initiatives. This continues this quarter, with the same three positive factors – in the same order – as last quarter.

The importance of brand value and reputation in the market is still the top factor – for 72.1 per cent of freelancers compared to 69.1 last quarter (Table 4). Innovation of services (second place) and the growth of the sector in which the freelancer is working (third place) both dropped by roughly two percentage points since last quarter to 58.8 per cent and 57.9 per cent respectively.

Both SOC1 and SOC2 freelancers seem to operate in more favourable market conditions than SOC3 freelancers. These two groups cited growth in the market sector they

are working in among the top three positive influences on their business, indicating that they are taking advantage of growth in their occupational sectors. On the other hand, SOC3 freelancers rely more on being entrepreneurial and cite new markets as the second most important driver of their business performance.

Therefore, SOC3 freelancers seem to adopt effective strategies for looking for new markets to sell their services in order to escape a highly competitive marketplace. SOC1 freelancers manage to take advantage of more organisations adopting flexible working practices, while SOC2 and SOC3 freelancers need to innovate to drive their business performance. Overall, despite the uniformity of the top three positive factors from last quarter, there is still a great deal of diversity in the market circumstances and strategies adopted by the different freelancer occupational groups.

Table 4: Top factors enhancing freelancers' business performance

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	My brand value/reputation in the market (72.9%)	My brand value/reputation in the market (67.8%)	My brand value/reputation in the market (75.2%)	My brand value/reputation in the market (72.1%)
2	Adoption of flexible working practices by organisations (60.4%)	Innovation in terms of the services I offer clients (54.4%)	Targeting new markets (65.6%)	Innovation in terms of the services I offer clients (58.8%)
3	Growth of the sector in which I work (58.3%)	Growth of the sector in which I work (53.2%)	Innovation in terms of the services I offer clients (64.5%)	Growth of the sector in which I work (57.9%)

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



Freelancer UK Economy Confidence Index

The business uncertainty caused by the outcome of the EU referendum – as well as the risk of being completely cut off from the EU, the world’s largest consumer market – have been dominating freelancers’ view of the UK economy for the last two and a half years.

There has not been a single quarter when either the three-month or 12-month economic outlook has not returned a negative index score. Unfortunately, this trend continues this quarter, with both indices still in very negative territory.

The three-month UK economy confidence index score fell from -19.1 to -21.2, indicating that freelancers expect the last quarter of 2018 to be worse than the current quarter (Table 5). This further drop is driven mainly by SOC2 freelancers, whose index score fell from -21.4 to -33.8.

By contrast, SOC1 and SOC3 freelancers are slightly less pessimistic than last quarter, even if they are still returning negative scores. The score for SOC1 freelancers rose from -11.1 to -9.4, while the score for SOC3 freelancers rose from -22.8 to -18.5.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 4: 2017	-18.3	-30.9	-28.7	-27.0
Quarter 3: 2017	-28.8	-21.7	-14.0	-20.4

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.

A similar pattern emerges when observing freelancers' confidence in the performance of the UK economy for the next 12 months. The overall index score worsens from -33.1 to -35.4, mainly driven by SOC2 freelancers whose 12-month UK economy index score drops from -37.2 to -53.7 (Table 6).

Both SOC1 and SOC3 freelancers returned an increase in their confidence index scores since Q2 this year. SOC1 freelancers report an improvement from -24.1 to -15.6, while the index score for SOC3 freelancers rises only slightly from -36.0 to -33.5.

It is notable that these forecasts extend to six months after the date when the UK is expected to leave the EU and therefore show a great deal of pessimism about how the economy will fare outside of the Union.

An alternative perspective is that the stall in business investment that resulted from the uncertainty about Brexit will have a lasting impact over the next 12 months – regardless of whether or not the UK finds itself in a better or worse international economic environment after it leaves the EU.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 4: 2017	-34.1	-46.0	-46.3	-43.3
Quarter 3: 2017	-38.5	-37.0	-30.0	-34.6

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



Freelancer Day Rates

In Q2 2018 freelancer day rates fell from £430 to £394 (a fall of £36 or 8.4%). This quarter they continued to fall by the much smaller amount of £2 per day, reaching the lowest level on record for any Q3 return and the second lowest level since surveys began (Table 7). The lowest ever rate was registered in Q1 2015 and stood at £387 – or £5 per day less than the current level.

However, this drop in day rates is not uniform across all SOC groups. In fact, both SOC2 and SOC3 freelancers experienced an increase in their day rates over the last quarter. Day rates rose by £14 per day for SOC2 freelancers and £7 per day for SOC3 freelancers.

The current day rate for SOC2 freelancers remains above the median and is the fifth highest of the 16 quarters recorded since surveys began. By contrast, SOC3 freelancers are still below the median, with day rates currently 11th highest on record.

The main cause for the drop in freelancer day rates, therefore, was SOC1 freelancers, who experienced a fall of £33 per day during the last quarter. As a result their day rates fell from £508 per day in Q2 to £475 per day in Q3. Therefore, although SOC1 freelancer day rates were already at the lowest level on record in Q2 2018, this they fell even further.

In general, freelancers had mixed fortunes this quarter, with SOC1 freelancers’ day rates falling to at an all-time low, SOC3 freelancer day rates improving – but remaining in the lower half of distribution since records began – and SOC2 freelancers experiencing a modest increase and staying comfortably in the upper half of the distribution over the last four years.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 3: 2018	£475	£500	£239	£392
Quarter 2: 2018	£508	£486	£232	£394
Quarter 1: 2018	£542	£490	£299	£430
Quarter 4: 2017	£516	£493	£261	£407
Quarter 3: 2017	£591	£532	£387	£489

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

The sample for Q4 2017, Q1 2018, Q2 2018 and Q3 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.

Just over two thirds (67%) of freelancers expect that their day rates will increase over the next year, while just under a quarter (22%) expect them to fall (Table 8a). These predictions translate into an expected net increase of approximately eight per cent over the next 12 months (Table 8b). In short, freelancers expect to recover some of the recent losses in day rates over the next year.

Perhaps unsurprisingly, SOC1 freelancers – who have experienced the greatest day rate decline – have above average optimism that their day rates will improve. A total of 71 per cent of this cohort expect their day rates to increase – leading to an overall expected net increase of 10.4 per cent.

SOC3 freelancers are predicting the greatest net percentage increase in day rates for the next 12 months: 11.3 per cent. Given the more intense market competition in this segment, these forecasts suggest they believe their latest strategy to find new markets will be successful and/or that they think competition in their market segment peaked in the last quarter.

SOC2 freelancers have the most modest expectations, predicting that day rates will not deviate much from the anticipated rate of inflation over the next year. Half of this group expect their day rates to rise and just over a third expect them to fall, leading to a net expected increase of just 2.2 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
Increase	71%	50%	80%	67%
No change	7%	16%	8%	10%
Decrease	21%	34%	13%	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	10.4%	2.2%	11.3%	7.9%

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



Capacity Utilisation

We measure freelancer capacity utilisation based on the number of weeks freelancers go without work each quarter – out of a maximum of 13 weeks. We use this measure 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 work in future and their own personal preferences about taking time off work.

Since the start of this year, spare capacity has been edging up by small increments from 2.7 to 2.8 weeks last quarter and from 2.8 to 2.9 weeks this quarter (Table 9). This represents a 7.4 per cent increase in spare capacity since the start of 2018, amounting to 22.3 per cent of the maximum time available to work. However, allowing for two weeks of summer vacation in Q3 would bring spare capacity down to just 6.9 per cent.

The small rise in spare capacity is driven entirely by SOC3 freelancers, whose number of inactive weeks rose from 3.4 to 3.6. This probably reflects the increased market density and competition in their occupational segment, as well as the time it takes to generate new business from their strategy of exploring new target markets.

Both SOC1 and SOC2 freelancers experienced no change in spare capacity since Q2 2018. Overall, levels of economic activity among freelancers has remained fairly constant for all types of freelancer occupational groups.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 4: 2017	3.3	2.5	2.7	2.8
Quarter 3: 2017	3.3	2.9	1.8	2.6

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



Quarterly Earnings

Freelancers' quarterly earnings are generated by the interaction of changes in average day rates and capacity utilisation. Since we already know that both of these have declined, it will come as no surprise that quarterly earnings have also fallen.

In fact, quarterly earnings have declined by two per cent: from £20,797 in Q2 2018 to £20,398 in Q3 (Table 10). The two per cent reduction follows a fall of 12.3 per cent last quarter, which technically drove the freelance sector into a recession: two consecutive quarters with negative growth in rates. The drop in earnings since the start of the year also reached 13.9 per cent.

The dip in quarterly earnings is confined to the SOC1 and SOC3 occupational groups. The smallest decline in quarterly earnings was among SOC3 freelancers, whose income fell by £219 over the quarter. SOC1 freelancers, on the other hand, suffered a substantial drop in quarterly earnings: £2,213. Measured from the start of the year, both SOC1 and SOC3 freelancers experienced a significant fall in quarterly earnings, running into the thousands.

SOC2 freelancers bucked this trend, with an £875 (3%) increase in quarterly earnings since last quarter and nearly no change (a 0.2% fall) in quarterly earnings since the start of the year. Therefore, SOC2 freelancers are the only group not currently in a recession.

Table 10: Freelancers' average quarterly earnings

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
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
Quarter 4: 2017	£25,281	£25,854	£13,809	£20,970
Quarter 3: 2017	£27,785	£26,701	£22,174	£25,179
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

While freelancers' quarterly income has been declining, their input costs have been increasing and are expected to continue to rise. Therefore, freelancers are not just in a recessionary period but are in, in fact, in a stagflationary situation where they face lower income and higher inflation.

This, of course, is one of the toughest business conditions as profits are under pressure from both falling revenues and rising costs. Exactly three quarters of freelancers expect their input prices to rise over the next 12 months compared to just eight per cent who expect them to fall (Table 11a). This translates into an 11.3 per cent expected net input price rate of inflation for the next 12 months – a figure that far exceeds the rate of inflation in the economy (Table 11b).

Approximately three-quarters of freelancers in all three occupational groups expect their input prices to rise over the next 12 months, with ten per cent or less expecting them to fall (Table 11b). SOC1 freelancers are anticipating the highest percentage increase in input prices over the next 12 months: 14.5 per cent, followed by SOC3 freelancers who expect an 11.1 per cent increase in input price inflation.

The lowest input price inflationary expectations are among SOC2 freelancers, who anticipate an 8.8 per cent rise over the next 12 months. Despite the variation, forecasts among all three groups are many multiples of the UK domestic inflation rate. This indicates that there will be upward inflationary pressure in the UK economy in terms of the business inputs relevant for the freelance business sector.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Increased	77%	74%	75%	75%
No change	13%	17%	19%	17%
Decreased	10%	9%	6%	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	14.5%	8.8%	11.1%	11.3%

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

Summary

The freelance sector has entered its second recession in just 15 months. In part, this should not be surprising given that the freelancer business confidence indices were predicting hard times ahead over the last two years. The main causes of the downturn appear to be Government policies relating to taxing and hiring freelancers – as well as the expectation of Brexit and the UK leaving the world's largest single market.

However, the recession is not occurring across all freelancer occupational groups. Notably, freelancers from professional occupations (SOC2) are not in recession and have in fact experienced a three per cent rise in their quarterly earnings since Q2 this year.

Furthermore, while associate professional and technical freelancers (SOC3) have gone into recession, it is noteworthy that their day rates have increased over the quarter. This group has been struggling with intense competition within their market sector and has responded with a diversification strategy of targeting new markets.

The rise in their day rates – as well as the high level of confidence in their business performance over the next 12 months – suggest that this strategy is working and likely to bear fruit over the next year. Consequently, the latest survey results also provide some cause for optimism.

The Sample

The quarterly Confidence Index report for Q3 2018 was compiled from 553 IPSE and PeoplePerHour members who replied to an online survey. The survey is conducted every quarter. In Q3 2018, the survey composition of respondents was: 32 per cent female and 66 per cent male, with an

average age of 43. They had been freelancing for an average of 8.0 years and are highly educated: 31 per cent have a highest qualification at the postgraduate degree level while 53 per cent have a highest qualification at the undergraduate degree level.

Against this, one could argue that SOC2 freelancers, the only occupational group not experiencing recession, are currently forecasting a worsening of their business performance over the next year. In sum, while there is some diversity across the performance and expectations of the various freelancer occupational groups, they are all finding the current business environment challenging.

This viewpoint is also consistent with freelancers' expectations about the UK economy. Freelancers clearly see their own sector outperforming the economy, mainly because they expect UK economy's performance to decline over the next 12 months. They also anticipate a strong upward pressure on the rate of inflation in the economy – if taking into consideration the predictions they make about their own input and output prices. In short, freelancers are expecting a tough economic climate but through their own innovation and strategic initiatives, they expect they will outperform the UK economy over the next 12 months.

Authors and acknowledgements

Professor Andrew Burke

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

Dr Samuel Vigne

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

Tristan Grove

Press & Public Affairs Officer,
The Association of Independent
Professionals and the Self-Employed

Inna Yordanova

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

About IPSE

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

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

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

About PeoplePerHour

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

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

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