



## Economist's Perspective

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### The budget confirms freelancers' fears

The fears that have driven freelancers' low confidence in the economy over the past three quarters have been realised in the early part of this year. Chancellor George Osborne's latest budget was generally downbeat, after an optimistic Autumn Statement. Strong United Kingdom (UK) growth was predicted by the Office for Budget Responsibility (OBR) in the autumn of 2015, but the outlook dimmed markedly by March 2016. The OBR forecasted 2016 growth to be 2%, down from the 2.4% the OBR predicted in autumn. Downward revisions to forecasts were made in each of the years to 2021, amounting to 1% lower Gross Domestic Product (GDP) growth over the entire period. It is believed the lower growth will be underpinned by a further extended period of poor productivity, which will have a negative effect on wage growth.

The bad news for the Chancellor is that this lower output means lower incomes and profits to be taxed, and lower revenue for the Government. Overall the readjustments to these forecasts makes the Government £56bn worse off in this Parliament and may cause him to miss his target of a budget surplus in the year 2020.

One of the groups most disappointed by this budget are the freelancers that work through their own limited companies, referred to by government as Personal Service Companies (PSCs). The Government has proposed to tighten the tax rules for those companies which work in the public sector. From April 2017, responsibility for paying the correct taxes will move from the individual who operates through the PSC, to the firm closest to the PSC in the supply chain. That would either be the public sector engager, the agency or a third party that pays the PSC. If the engagement is 'caught' by the IR35 rules, the engager, agency or third party will be responsible for adopting the Pay As You Earn (PAYE) system and paying the National Insurance Contributions of an employee.

This move confirmed the fears of freelancers that have consistently been highlighted by the Freelancer Confidence Index (FCI) over the past year. The survey results showed a significant dip in confidence over the past year, with the initial, significant fall coming in the survey after last year's budget. Since then freelancers have consistently ranked government regulation and attitudes towards freelancing as the top two factors which will have a negative effect on the performance of their business.

The full details of the Government's plan will be released shortly, but the main concern for freelancers will be the risk that Government decides to take a similar approach in the private sector. Confidence may again take a hit as clarity emerges about the way in which the regulation will be tightened.

### Inflation recovering

Inflation has begun to slowly recover to normal levels in the early part of this year, rising to 0.3% in January and to 0.5% in March. Much of the increase in overall prices was attributable to travel costs, but this jump compared to last year is due to the earlier timing of the Easter holiday break.

The Bank of England's Monetary Policy Committee voted unanimously to maintain interest rates at a record low of 0.5%. The committee indicated that they are less likely to tighten in the near future for two main reasons. Firstly, despite small increases in recent months, inflation still has not started to pick up pace to the degree that the Bank of England had anticipated. Additionally, the Bank of England sees that the slowing global economy will eventually impact the UK, so credit tightening may add additional downward pressure on the economy. The Bank of England also cited the upcoming European Union (EU) referendum as a reason for caution on rates because of the uncertainty it has caused.

The Bank of England's decision will be welcome news to freelancers who, because of the way that they work, often find it difficult and expensive to access credit. Many of them also have concerns that their costs of doing business are due to increase within the next 12 months. An increase to the rate of interest paid on their finance would be an unwelcome addition to this growing burden.

### **Growth slows in the first quarter of 2016 after a strong 2015**

After a fairly strong 2015 with GDP growth recorded at 2.2%, at the start of this year the OBR's warnings about the performance of the economy appeared to come to realisation. In quarter one (Q1) 2016 GDP growth slowed to 0.4% from 0.5% in quarter four (Q4) 2015. The services sector was the only part of the economy that continued to grow (by 0.6%), while all of the other three main industrial groupings saw contraction. Agricultural output fell by 0.1%, production was down by 0.4% and most alarmingly, construction output fell by 0.9%.

This falls in line with freelancers' outlook for the performance of the economy over the next three and 12 months and it is interesting to note that they remained positive about the future of their own business' performance. This could be, in part, because freelancers work predominantly within the services sector and may see it continuing to outperform the other areas of the economy.

The Organisation for Economic Co-operation and Development (OECD) portioned some of the blame for the slowing of the UK economy's growth on the upcoming EU referendum, stating that the uncertainty about its outcome, as well as the potential damage that could be caused by a British exit from the EU, has had a dampening effect on investment and economic activity.

### **Labour market remains strong**

While growth slowed, employment remained a strong point of the UK economy, as it has been throughout the recession and the recovery. Much of this success has been down to the self-employed and March's Labour Market data showed that this trend has continued. The total figure for self-employed people in the UK rose again in the three months leading up to the end of January compared to the year prior by 106,000, totalling 4.63m. This was part of an overall increase of 302,000 in the labour market which showed again that self-employment was leading the progress by making a larger than proportional contribution to the overall number of additional people in work.



# Freelancers remain confident in their business outlook

Freelancer Confidence Index:

**+4.9**

(From -100 to +100)

Freelancers predict downturn in UK economy but remain confident in their business



## Business cost

Nearly 3 in 5 freelancers expect their costs to increase in the next 12 months

**56%**

of freelancers believe their costs will increase



## Demand for freelance work

Demand for freelance work highest in the last 12 months



84% of freelancers were working on a project when surveyed in Q1 2016.

## Main drivers in revived confidence

Factors cited as having a positive impact on freelance businesses



1 Building their brand and reputation



2 Innovating their services



3 Growth of the sector they work in

## Executive Summary

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### Freelancers predict UK economic slowdown but still confident about their own businesses

The Q1 FCI survey for 2016 shows that freelancers' businesses have done well over the last 12 months with quarterly earnings up 16% on the same quarter in 2015. With freelancers earning two and half times (2.5) that of equivalent employees and employee wage inflation hovering around 2%, it is clear that the gap between freelancer and employee earnings is widening. Freelancers' capacity utilisation, which was already high, has increased one percentage point to 84%, which is another indication of the robustness of the sector.

Against this background, it's not surprising to find that the freelancer business confidence index remains positive, with most indicating that they expect their business performance to increase over the next 12 months. Nevertheless, the business confidence index score has dropped, indicating a lower – albeit positive – level of confidence than at the end of 2015. However, there is now a great diversity in business confidence across freelance sectors. Freelancers working in Office for National Statistics (ONS) Standard Occupational Classification (SOC) code SOC1 (managers, directors and senior officials) and SOC2 (professional occupations) recorded negative confidence index scores, indicating that they expect their businesses to underperform the levels achieved over the last 12 months. Notably these groups recorded the lowest three month business confidence index scores since the survey began. The main drivers of this fall in confidence are public policy; particularly attitudes of government towards freelancing and regulation. SOC1 and SOC2 freelancers believe that brand and reputation building, along with innovation, are factors that will enhance business performance over the next 12 months.

By contrast, SOC3 (associate professionals and technical occupations) freelancers exhibited great levels of business confidence during the same period. This group feel less affected by public policy and more influenced by factors such as competition and the performance of the UK economy. Similar to their SOC1 and SOC2 peers, SOC3 freelancers also believe that brand and reputation building along with innovation will be the main positive drivers of their business performance over the next year. Given the significantly higher confidence levels of SOC3 freelancers, it is clear that they see these positive drivers as being much more effective than their SOC1 and SOC2 counterparts.

Despite the overall positive outlook freelancers have for their businesses over the next 12 months and the variation of views that generate this result, it is striking that a consensus across all freelancer groups exists when it comes to the outlook for the UK economy. All freelancer occupational groups expect that the UK economy will not perform as well over the next 12 months as it did over the last year. Macroeconomic factors relating to fears about Brexit and the slowdown in the international economy seem to be lowering their confidence in the UK economy. In addition, freelancers' pivotal role in business growth activities give them a first-hand microeconomic insight into the intentions of UK firms who appear to be moderating their expansion plans.

While freelancers are forecasting a slowdown in the economy, they are also predicting inflation. As previously mentioned, freelancers high capacity utilisation has increased slightly and a ratio of almost three times as many freelancers (46% compared to 16%) expect their day rates to increase over the next 12 months. Similarly, freelancers expect the cost of running their business to rise, as 56% expect input prices to increase and just 6% expect them to fall.

In the Q1 2016 we observe a freelance sector that is becoming more heterogeneous, and which is broadly confident that their business performance will increase over the next 12 months. This is balanced against a unanimous perception that the UK economy will underperform compared to last year, and an expectation that inflation is set to continue.

## Freelancer Business Confidence Index

### Business confidence levels less positive and more varied across occupational groups

Freelancer business confidence remains positive indicating that most freelancers expect their business to improve over the next year. In Q1 2016, freelancers' business confidence score for the next three months stands at 6.7, a decrease from 10.5 the previous quarter, and down from 14.8 in the same quarter in 2015 (Table 1) indicating a weakening positive outlook for freelancers' business performance over the next quarter. In Q4 2015 freelancers' business confidence was becoming more diverse as the confidence of SOC2 professional freelancers was very low, while those in professional and technical support roles (SOC3) had a much more positive upbeat outlook for their businesses. This divergent trend continues in Q1 2016. For the first time SOC2 freelancers have experienced a negative score, indicating that a small majority of freelancers expect their business performance to decline over the next quarter. By contrast, SOC3 freelancers experienced a further increase in confidence with levels rising from 18.6 in Q4 2015 to 23.6 in Q1 2016, as well as rise on the same quarter in 2015. This heterogeneity across these categories of freelancers again indicates the importance a segmenting freelancers rather than treating them as a 'one size fits all' homogeneous group.

As with previous FCI surveys, there is a relatively small sample of freelancers in SOC1, and therefore interpreting this category of managerial freelancers must be treated with caution. Nevertheless, it is noteworthy that this group have moved from a positive to a negative three month business confidence outlook score since Q4 2015. SOC1 freelancers' current index score stands at a -5.6, which is the lowest three month confidence index score for this occupational group since the since the survey began.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 1: 2016	-5.6	-3.3	23.6	6.7
Quarter 4: 2015	12.5	0.3	18.6	10.5
Quarter 3: 2015	8.3	1.9	5.4	4.9
Quarter 2: 2015	11.5	13.1	20.9	15.8
Quarter 1: 2015	7.9	15.2	18.8	14.8
Quarter 4: 2014	-2.5	10.1	3.0	4.2

*Freelancers were asked to identify their confidence levels for future relative to current performance in one of five categories comprising: more confident, slightly more confident, as confident, slightly less confident, and a lot less confident. The confidence index is created by scoring each of five answers with 100, 50, 0, -50 and -100 respectively and then taking the weighted average score for the sample. The weighted average is based on the relative size of freelancers in the labour market in 2014.*

The freelance business confidence index scores for a 12 month outlook mirror the trends observed in the three month outlook. Overall, the index score is positive but down from last quarter and also from the same time last year (Table 2). This masks a rise in confidence among SOC3 freelancers to an all-time high of 26.9, and a fall in confidence of SOC2 freelancers to a record low of -12.4. Over the next 12 months SOC2 freelancers expect their business performance to worsen while SOC3 freelancers expect their businesses to improve. Observing the caveat of the small sample size for SOC1, we note that managerial freelancers also recorded a fall in confidence and an expectation that business performance will decline 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: 2016	-5	-12.4	26.9	4.9
Quarter 4: 2015	18.8	-7.1	19.7	9.8
Quarter 3: 2015	17	-10.8	5.6	2.4
Quarter 2: 2015	11.5	10.5	22.5	15.5
Quarter 1: 2015	0.0	12.9	20.9	12.9
Quarter 4: 2014	-22.5	10.1	11	2.4

*Freelancers were asked to identify their confidence levels for future relative to current performance in one of five categories comprising: more confident, slightly more confident, as confident, slightly less confident, and a lot less confident. The confidence index is created by scoring each of five answers with 100, 50, 0, -50 and -100 respectively and then taking the weighted average score for the sample. The weighted average is based on the relative size of freelancers in the labour market in 2014.*

## Factors impacting business performance

An insight into the factors that are driving these trends are presented in Tables 3-6. Dealing with the negative influences first, the main factor cited as having lowered the business performance of SOC1 and SOC2 freelancers over the last three months is attitudes of government towards freelancing (Table 3). These two groups of freelancers also agree that the second most damaging factor, during the same period, has been regulation relating to hiring freelancers – another public policy related impact. It is notable that these features have been among the top three negative factors impacting freelancers' businesses since the survey began, indicating that most freelancers believe that the main impediments to their business are due to public policy. Aside from these factors, SOC1 freelancers cite general labour market performance as the third most negative influence, while SOC2 freelancers attribute it to greater competition among freelancers.

SOC3 freelancers – the only group of freelancers who expect their business performance to improve over the next 12 months – attribute the top three negative influences over the last three months to competition among freelancers, change in the value of Sterling and attitudes of government towards freelancing. It appears that this group are more susceptible to international competition than the more highly skilled and differentiated SOC1 and SOC2 freelancers, which matches the same pattern in the employment sector where the international substitutability of workers is higher among lower skilled workers.

**Table 3: Top factors which lowered freelancers' business performance over the last three months – by SOC codes 1-3**

Rank	SOC1	SOC2	SOC3
1	Attitudes of government towards freelancing (60.0%)	Attitudes of government towards freelancing (61.5%)	Level of competition from other freelancers (41.0%)
2	Regulation relating to hiring freelancers (60.0%)	Regulation relating to hiring freelancers (40.1%)	Change in the value of UK Sterling exchange rate (26.4%)
3	Performance of the wider labour market (30.0%)	Level of competition from other freelancers (26.7%)	Attitudes of government towards freelancing (24.0%)

Freelancers were asked to rate the importance of 14 factors which can affect the performance of their business over the last three months in categories from significantly positive, slightly positive, no impact, slightly negative, significantly negative.

Moving from past performance to future outlook, freelancers believe that most of the factors that held their businesses back over the last three months will continue to do so over next 12 months. Public policy is again expected to be the main constraint on the business performance of SOC1 and SOC 2 freelancers (Table 4). Similarly, competition and the exchange rate feature again as constraints on the businesses of SOC3 freelancers. The main difference between the past and future outlook is that SOC2 and SOC3 freelancers expect the performance of the UK economy will worsen, adding a constraint to their businesses in the next 12 months, while SOC1 freelancers are becoming more concerned with competition in the freelance sector.

**Table 4: Top factors expected to lower freelancers' business performance over the next 12 months – by SOC codes 1-3**

Rank	SOC1	SOC2	SOC3
1	Regulation relating to hiring freelancers (70.0%)	Attitudes of government towards freelancing (67.8%)	Level of competition from other freelancers (42.0%)
2	Attitudes of government towards freelancing (70.0%)	Regulation relating to hiring freelancers (55.1%)	UK GDP growth/state of UK economy (20.6%)
3	Level of competition from other freelancers (40.0%)	UK GDP growth/state of UK economy (34.4%)	Change in the value of UK Sterling exchange rate (20.1%)

Freelancers were asked to rate the importance of 14 factors which can affect the performance of their business over the next 12 months in categories from significantly positive, slightly positive, no impact, slightly negative, significantly negative.

Turning to the factors positively impacting freelancers' businesses (Table 5), brand and reputation in the market continued as top drivers of performance over the last three months for all freelancers. The other factors cited as having a positive impact on freelancers' businesses are associated with entrepreneurship and innovation (e.g. targeting new markets, being



innovative, and collaborating with other freelancers), with the exception of SOC1 freelancers who felt that a weaker Sterling has helped them to gain more business from clients.

Freelancers expect that many of these influences will continue to drive their business performance over the next 12 months (Table 6). Collectively, freelancers expect reputation and brand to be the top driver of business performance, with innovation being the second most important factor. A new factor expected to enhance business performance of all freelancers over the next 12 months is growth of the sector in which they work.

**Table 5: Top factors which enhanced freelancers' business performance over the last three months – by SOC codes 1-3**

Rank	SOC1	SOC2	SOC3
1	My brand value/reputation in the market (30.0%)	My brand value/reputation in the market (47.2%)	My brand value/reputation in the market (69.5%)
2	Change in the value of UK Sterling exchange rate (20.0%)	Innovation in terms of the services I offer clients (30.5%)	Targeting new markets (48.3%)
3	Collaboration with other freelancers/ businesses to secure more work (20.0%)	Adoption of flexible working practices by organisations (29.6%)	Innovation in terms of the services I offer clients (48.1%)

*Freelancers were asked to rate the importance of 14 factors which can affect the performance of their business over the last three months in categories from significantly positive, slightly positive, no impact, slightly negative, significantly negative.*

**Table 6: Top factors expected to enhance freelancers' business performance over the next 12 months – by SOC codes 1-3 according to the individual SOC Codes**

Rank	SOC1	SOC2	SOC3
1	My brand value/reputation in the market (50.0%)	My brand value/reputation in the market (50.9%)	My brand value/reputation in the market (68.8%)
2	Innovation in terms of the services I offer clients (40.0%)	Innovation in terms of the services I offer clients (36.9%)	Innovation in terms of the services I offer clients (58.6%)
3	Growth of the sector in which I work (20.0%)	Growth of the sector in which I work (36.4%)	Targeting new markets (55.0%)

*Freelancers were asked to rate the importance of 14 factors which can affect the performance of their business over the next 12 months in categories from significantly positive, slightly positive, no impact, slightly negative, significantly negative.*

In Q1 2016, the FCI has revealed that most freelancers' businesses have broadly similar factors driving and constraining their performance. Public policy is seen as a major constraint, while private initiatives that relate to being entrepreneurial and innovative are seen as the main drivers of business performance. Interestingly, despite these common factors the

business confidence across freelancer groups is incredibly varied; polarised into a highly upbeat and confident SOC3 freelancing cohort and downbeat SOC1 and SOC2 freelancers. Therefore it seems that the influence each factor has on freelancers' business performance differs by the weight of impact, rather than variation in the particular factors that influence each SOC group.

## Freelancer UK Economy Confidence Index

### Confidence in the economy plunges to a record low negative score

At the end of Q1 2016, the FCI is observing a high level of uncertainty and fluctuation among freelancers' confidence in the UK economy. Following a downbeat quarter three (Q3) of 2015, the year ended on a confident note for SOC1 and SOC3 freelancers. Now it seems that freelancers think that the performance of the UK economy will deteriorate over the next quarter (Table 7) and that this will get worse as the year progresses (Table 8). It is unclear whether this is generated by the gradual permeation of a slowing global economy to the UK and/or concerns about the UK's potential exit from the European Union (EU), but the negative uniformity of the index scores is striking with the lowest ever negative score of -19.9. This uniformity of opinion is in stark contrast to the increasingly divergent confidence levels that freelancers have about their own business performance. What is clear is that SOC3 freelancers anticipate bucking towards the economic slowdown, with improved performance of their businesses over the next 12 months. This appears consistent with a view that this group of freelancers engage and compete in a more international market than SOC1 and SOC2 freelancers.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 1: 2016	-5	-18	-8.9	-11.2
Quarter 4: 2015	31.3	-2.9	1.7	7.3
Quarter 3: 2015	8.3	-2.7	-4.6	-0.7
Quarter 2: 2015	26.9	15.3	6.4	14.7
Quarter 1: 2015	11.1	16.3	5.2	10.7
Quarter 4: 2014	-7.5	7.1	-0.7	0.5

*Freelancers were asked to identify their confidence levels for future relative to current performance in one of five categories comprising: more confident, slightly more confident, as confident, slightly less confident, and a lot less confident. The confidence index is created by scoring each of five answers with 100, 50, 0, -50 and -100 respectively and then taking the weighted average score for the sample. The weighted average is based on the relative size of freelancers in the labour market in 2014.*

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 1: 2016	-25	-24.7	-12.3	-19.9
Quarter 4: 2015	37.5	-6.3	-1.9	6.2
Quarter 3: 2015	0	-4.7	-7.3	-4.6
Quarter 2: 2015	15.4	18.7	8.4	13.8
Quarter 1: 2015	5.3	16.5	9.8	11.1
Quarter 4: 2014	-2.5	6.8	-3.3	0.5

Freelancers were asked to identify their confidence levels for future relative to current performance in one of five categories comprising: more confident, slightly more confident, as confident, slightly less confident, and a lot less confident. The confidence index is created by scoring each of five answers with 100, 50, 0, -50 and -100 respectively and then taking the weighted average score for the sample. The weighted average is based on the relative size of freelancers in the labour market in 2014.

## Freelancer Day Rates

### Freelancer day rates dip slightly, but expected to increase over the next 12 months

In Q4 2015 freelancer day rates increased by 8%, but most of these gains have been lost across the Q1 2016. The main source of the fall is from SOC1<sup>1</sup> freelancers whose day rate has declined by 18.4% from £783 to £639. SOC3 freelancer day rates have fallen by 3.3%. By contrast SOC2 freelancer day rates have increased by 4.8%. It is interesting that the more confident SOC3 freelancers have reduced their day rates, while downbeat SOC2 freelancers raised their rates. This tallies with the view expressed by SOC3 freelancers that they face more competitive pressure than SOC2 freelancers. However, given SOC3 freelancers' greater confidence in their business performance over the next 12 months, it is not surprising to observe (Table 10) that a much higher proportion (68%) of SOC3 freelancers are expecting day rates to increase over the next 12 months compared to SOC2 freelancers (31%). Simultaneously, 20% of SOC2 freelancers are now expecting to lower their day rates over the next 12 months compared to less than half that proportion among SOC3 freelancers.

<sup>1</sup> As with previous surveys we express a note of caution on SOC1 day rates as these are based on a very small cohort sample of 8 observations compared to 388 and 158 for SOC2 and SOC3 respectively.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 1: 2016	£639	£483	£237	£425
Quarter 4: 2015	£783	£461	£245	£455
Quarter 3: 2015	£546	£454	£312	£421
Quarter 2: 2015	£815	£493	£261	£481
Quarter 1: 2015	£560	£480	£193	£387
Quarter 4: 2014	£590	£477	£220	£404

*The weighted average is based on the relative size of freelancers in the labour market in 2014.*

Despite the 7% downward adjustment of day rates over the last quarter, it is worth noting that day rates are 10% up on the same quarter of last year. This observation, set against a ratio of almost three to one of freelancers who think that their day rates will go up over the next year (46%) compared to those who think they will decline (16%), indicates that the longer term momentum driving day rates upwards seems set to continue.

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

	SOC 1	SOC 2	SOC 3	Weighted Average SOC1-3
Increased	33%	31%	68%	46%
No change	45%	49%	24%	38%
Decreased	22%	20%	8%	16%

*The weighted average is based on the relative size of freelancers in the labour market in 2014. Averages may not sum to 100% due to rounding.*

## Capacity Utilisation

### Capacity utilisation is slightly up and remains high

Since the beginning of FCI reporting, freelancer capacity utilisation has been relatively high and greater than or equal to 80%. In the current quarter it stands at 84%, up from 83% in the last quarter of 2015. The main driver for this has been from SOC1 freelancers whose spare capacity was just 1.2 weeks in Q12016 (Table 11). SOC2 freelancers' capacity utilisation has remained unchanged, while SOC3 capacity utilisation fell by a half day over the quarter. Compared to the same quarter last year, freelancers' capacity utilisation has gone up by one day over the quarter.



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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 1: 2016	1.2	2.1	2.7	2.1
Quarter 4: 2015	1.6	2.1	2.6	2.2
Quarter 3: 2015	3.1	1.7	2.4	2.3
Quarter 2: 2015	3.7	1.9	2.6	2.6
Quarter 1: 2015	2.5	2.1	2.4	2.3
Quarter 4: 2014	1.6	1.7	2.2	1.9

The weighted average is based on the relative size of freelancers in the labour market in 2014.

## Quarterly Earnings

### Freelancer quarterly earnings rise, reversing decline over the last half of 2015

After reaching a peak of £23,790 in quarter two (Q2) of 2015, freelancer quarterly earnings declined over the last two quarters of 2015. Freelancers have experienced a growth in earnings during Q1 2016, rising to £23,681 which is the second highest on record and up by 15.9% on the same quarter last year. This is significantly ahead of employee wage inflation growth which is around 2% indicating that the income gap between freelancers and employees is widening. The rise in quarterly income occurs across all freelancer groups SOC1-3. Freelance earnings growth has been highest in the SOC1 followed by SOC2 and lowest in the more competitive SOC3 grouping.

**Table 12: Average quarterly earnings of freelancers over the last three quarters**

	SOC 1	SOC 2	SOC 3	Weighted Average SOC1-3
Quarter 1: 2016	£37,847	£26,347	£12,388	£23,681
<i>Equivalent employee earnings (Latest ONS estimates*)</i>	<i>£10,192</i>	<i>£9,321</i>	<i>£7,722</i>	<i>£8,906</i>
Quarter 4: 2015	£33,333	£24,524	£12,147	£21,820
Quarter 3: 2015	£27,611	£25,430	£16,648	£22,511
Quarter 2: 2015	£35,475	£26,840	£13,692	£23,790
Quarter 1: 2015	£27,491	£26,585	£10,395	£20,440
Quarter 4: 2014	£32,848	£27,376	£11,976	£22,663

The weighted average is based on the relative size of freelancers in the labour market in 2014. \*Employee earnings are based on Office for National Statistics (ONS) data on gross weekly earnings by employees from the Annual Survey of Hours and Earnings, April 2015.

## Freelance Business Costs

### Inflationary pressures continue over the next 12 months

In the last quarterly report we observed inflation picking up with 51% of freelancers experiencing a rise in their business costs, and 60% expecting a rise over the next 12 months. In the current quarter these figures have dropped back marginally with just under half of freelancers (44%) saying that their business costs rose over the last 12 months, while just over half (56%) expect them to rise over the next 12 months. By contrast just 11% of freelancers experienced a fall in input prices over the last quarter, while only 6% forecast input prices to fall – indicating an expectation among freelancers that business costs will continue to rise over the next 12 months. The main driver for this rise in costs is expected to come from SOC2 freelancers of whom 66% expect input price inflation over the next 12 months. As this particular occupation group of freelancers are also the most downbeat about their business prospects over the next year it seems likely input price inflation in their sector is playing a role.

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

	SOC 1	SOC 2	SOC 3	Weighted Average SOC1-3
Increased	40%	49%	42%	44%
No change	40%	39%	52%	44%
Decreased	20%	12%	6%	12%

*The weighted average is based on the relative size of freelancers in the labour market in 2014. Percentages may not add up to 100% due to rounding.*

**Table 14: Freelancers' expectation of input cost change over the next 12 months**

	SOC 1	SOC 2	SOC 3	Weighted Average SOC1-3
Increased	50%	66%	51%	56%
No change	40%	30%	45%	38%
Decreased	10%	4%	4%	6%

*The weighted average is based on the relative size of freelancers in the labour market in 2014. Percentages may not add up to 100% due to rounding.*

## Summary

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Overall, we are observing a freelance sector that has become extremely concerned about the prospects for the UK economy over the next year with a unified expectation across all occupational codes that the economy will not perform as well as it did over the last year. Against this broad consensus, we witness a growing divergence in business confidence among freelancers. Those in SOC1 and SOC2 groups expect their business performance to underperform levels of the last 12 months, while SOC3 freelancers are confident that their business performance will excel that of the last year.

Public policy is seen as the main impediment to the performance of freelancers' businesses while reputation/branding and innovation are identified as the main positive drivers of business performance. SOC3 freelancers are less impacted by public policy than SOC1 and SOC2 freelancers, but are instead more affected by competition. That said, they appear more confident that their brand/reputation building and entrepreneurial/innovative activities will enable them to thrive in a competitive market.

Overall, freelancer quarterly income has risen and they are increasingly earning more than equivalent employees. Inflationary pressures have moderated very slightly, but over the next 12 months freelancers are anticipating a rise in both their day rates and input prices for their businesses.

The freelancer sector is becoming more diverse and segmented as far as business confidence is concerned. Overall the sector remains marginally positive about the outlook for freelance businesses over the next 12 months while downbeat about UK economic performance.

## Appendix: The Sample

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The quarterly IPSE Freelancer Confidence Index report for Q1 2016 has been compiled from a database of 806 respondents who replied to a survey. Respondents comprised of IPSE members and freelancers who engage with Upwork. The survey is conducted every quarter. In Q1 2016, the survey composition of respondents was: 30% female, an average age of 40, have been freelancing for an average of 6.5 years and are highly educated – 29% have a highest qualification at the postgraduate degree level while 56% have a highest qualification at the undergraduate degree level.

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### About IPSE

IPSE is the largest association of independent professionals in the EU, representing over 67,000 freelancers, contractors and consultants from every sector of the economy. It's a not-for-profit organisation owned and run by its members.

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

With highly professional staff working for you, IPSE has the unique ability to demonstrate the economic value of freelancing to those in power and ensure freelancing is both considered and supported in all areas of regulation and policy. As well as being a campaigning body, IPSE provides a wide range of support services to help its members succeed in business, including tax and legal helplines, IR35 support, and compensation for illness/injury.

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

### About Upwork

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

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