

IPSE Confidence Index

Q1 2017



Economist's Perspective

The first quarter of 2017 (Q1) presented a mixed picture for freelancers. Macroeconomic data indicates that the UK economy remains strong, having been underpinned by remarkable performance in the labour market. However, inflation has steadily increased in recent months and may be the biggest threat to the UK's medium-term economic performance.

This mixed picture has been reflected in freelancers' outlook for the economy. Although slightly improved compared to quarter three (Q3) and quarter four (Q4) of 2016, freelancers appear braced for a marked downturn towards the end of the year. After plummeting during the EU referendum period, confidence in the economy hasn't fully recovered despite significant improvement in Q3 and the UK's stronger than expected economic growth since the vote to leave. Gross domestic product (GDP) growth figures have beaten the expectations of analysts, many of whom anticipated an immediate decline in output as a result of the Brexit vote. Freelancers are more pessimistic about the economy's prospects over next 12 months than the immediate outlook in the next three months. The Office for Budget Responsibility (OBR) endorses this, and expect the overall GDP slowing to 1.5% in the full year of 2017, though the first and second quarter are expected to be considerably stronger than previously forecast.

A key feature of the OBR's downbeat forecast is inflation's impact on growth. Sterling's weakness since the Brexit vote has been supportive of the economy so far, ensuring that exports are more competitive and boosting the manufacturing sector in particular. However, the weak exchange rate means imports of foreign goods are more expensive, causing an increase in inflation. Since the middle of 2015, the UK economy has experienced particularly low inflation causing real wage growth despite relatively slow nominal pay increases. The weak exchange rate has reversed this trend and now poses a threat to the UK's

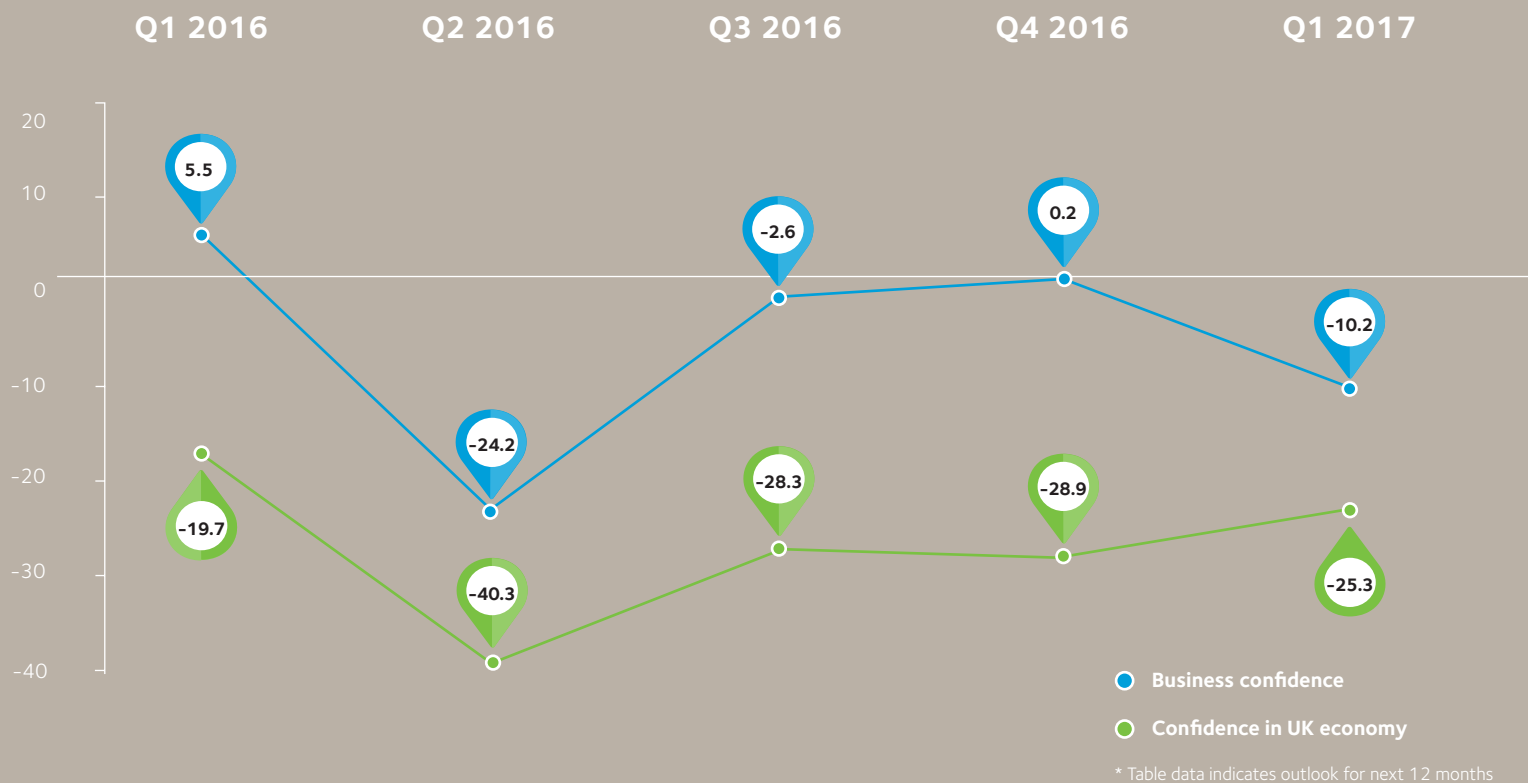
strong consumer spending – a key features of UK's economic recovery since the crisis.

Inflation has also been a key area of concern over the past year, with the majority of freelancers expecting their costs to increase. Recent data has legitimised their fears; the rate of inflation has risen above the Bank of England's 2% target and is level with the wage increase rate of 2.3%. If inflation continues to rise, it could result in reduced performance in freelancers and the wider economy.

Freelancers are also pessimistic about their own businesses' prospects; believing they will fare worse over the course of year, having fallen into negative territory over the past quarter. Their main concerns have remained consistent over the past few quarters, with Government taxation and regulations being the most cited downward pressures on performance. Indeed, recent developments have given them justifiable cause for concern. As the Government proceeded with plans to tighten tax laws on contractors operating the public sector, it is logical to expect, potentially, the same in the private sector too. Around two thirds of the respondents expected Government taxation and regulation to have a negative impact over the next year. While Brexit remains a concern, it ranks lower than Government action within the freelance sector.

Comparing the two sets of confidence measures is revealing. Freelancers believe that their businesses will outperform the wider economy, despite the Government targeting their sector with stricter tax rules and regulations. The upward drivers of business performance tend to be self-determined with nearly half the respondents citing their businesses' brand value, and a third the innovation of their services as the key to improving performance. Although pessimistic about their performance, they are relatively confident they will navigate any uncertainty over the coming months better than most businesses.

Freelancers' confidence in business performance drops back into negative territory



Executive Summary

Freelancer Business Confidence Index

- The headline index score indicating freelancers' confidence in their business over the next 12 months, stands at -10.2, down from 0.2 in Q4 2016.
- The business confidence index has moved back into negative territory indicating that most freelancers expect their business performance to worsen over the next 12 months.
- Increasingly adverse government regulations and fiscal policy relating to freelancers are highlighted as the main causes of the forecast for the downturn in freelancer business performance.

Freelancer UK Economy Confidence Index

- Despite recent positive economic growth in the UK, freelancers hold firm in their belief that economic performance is set to decline over the next 12 months.
- They forecast that this is most likely to occur at the end of 2017 and early 2018.



Freelancer Business Confidence Index

At the end of 2016 freelancer business confidence was gradually improving after the collapse in confidence witnessed in quarter 2 (Q2), which appeared mainly driven by fears stemming from the Brexit result. In Q1 of 2017 freelancer business confidence has fallen back into negative values indicating that most freelancers expect their business performance to decline over the next year. Freelancers' three month outlook for business confidence now stands a -4.5 down from +6.7 last quarter. This is also the second lowest

level for the three month outlook for business confidence since the survey began. Notably, the fall in confidence is uniform across all three freelancer Standard Occupational Classifications (SOC) applied to this survey – SOC1 (managers, directors and senior officials), SOC2 (professional occupations) and SOC3 (associate professional and technical occupations). SOC3 freelancers recorded the least negative scores across the occupational categories.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 1: 2017	-6.4	-6.6	-1.4	-4.5
Quarter 4: 2016	15.6	-4.3	11.4	6.7
Quarter 3: 2016	-19.2	3.6	14.9	3.0
Quarter 2: 2016	-37.5	-10.1	1.6	-11.5
Quarter 1: 2016	-5.6	-3.3	23.6	7.2

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 2016.

The 12 month outlook for business confidence has also reached its second lowest value since records began, and is negative across all three SOC categories. The lowest levels of freelancer business confidence are observed by SOC1 and SOC2 freelancers. Unlike the three month outlook where the business confidence index score was manifesting a gradual return of business confidence in the aftermath of the Brexit referendum, the 12 month outlook confidence index score never convincingly returned to positive values. All scores since Q2 of 2016 have been negative except for Q4 where it was marginally above zero. This indicates that freelancers continue to expect a medium term decline in their business performance. This view is consistent with assertions in earlier reports that it will take time for the real economic

impact of Brexit to materialise and to work its way through to both the economy – particularly inflationary pressure from the weaker pound and stalling business investment – and the freelance sector. Since SOC1-3 freelancers are often hired for investment projects (e.g. technological development/enhancement, innovation, entrepreneurial projects and de-risking firm expansion when it is not yet clear if new business opportunities are temporary or permanent) their forecast for a fall in the demand for their services is likely to be based on reliable information from their clients. Therefore, this is probably a good advance indicator that business investment levels are set to fall.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 1: 2017	-13.1	-15.6	-3.4	-10.2
Quarter 4: 2016	2.9	-15.9	12.7	0.2
Quarter 3: 2016	-32.1	-5.6	16.4	-2.6
Quarter 2: 2016	-41.7	-22.7	-15.7	-24.2
Quarter 1: 2016	-5	12.4	26.9	5.5

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 2016.



Factors Impacting Business Performance

The two main negative factors impacting freelancer business performance in Q1 of 2017 relate to government fiscal policy and regulation of freelancers. Freelancers indicate that fiscal policy has been the main factor negatively influencing business performance over the last three months. government regulation relating to hiring freelancers is also uniformly perceived as the second greatest negative influence on business performance over the last three months (Table 3).

Previous reports have noted the negative influence of changes to IR35 in the public sector, and while this is likely to be a major factor behind these results, it could also be the case that the increasingly negative press surrounding false self-employment and exploitation of lower skilled/earning freelancers is having a harmful spill over effect. It's probable that higher earning freelancers are experiencing a more hostile environment in terms of public policy units

and organisations afraid of being associated with negative press. If this observation is correct then it highlights the need for public policy to take a segmented approach to self-employment, which enables the higher skilled/earning freelancers the freedom to work on a variable cost project basis, and at the same time provides firms with assurance that they won't be wrongly stigmatised when using into this group of highly skilled freelancers. This observation is particularly poignant given that freelancers expect that fiscal and regulatory government policy will continue to be the primary negative influences on their businesses over the next 12 months (Table 4). In this regard, it is notable that the proportion of freelancers saying that the negative impact of government regulations on their business has risen from 50 per cent for the last three months, to 62 per cent for the next 12 months.

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

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	Government's fiscal policy relating to freelancing (66.7%)	Government's fiscal policy relating to freelancing (67.2%)	Government's fiscal policy relating to freelancing (57.7%)	Government's fiscal policy relating to freelancing (63.4%)
2	Government regulation relating to hiring freelancers (50.0%)	Government regulation relating to hiring freelancers (53.8%)	Government regulation relating to hiring freelancers (45.2%)	Government regulation relating to hiring freelancers (49.5%)
3	Outcome of the EU referendum (50.0%)	Outcome of the EU referendum (38.4%)	Outcome of the EU referendum (43.5%)	Outcome of the EU referendum (43.2%)

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

Freelancers have continued to indicate that they believe Brexit will have a negative influence on their business performance. The outcome of the EU referendum has featured as the third most negative influence on freelancers' businesses over the last three months (Table 3), and is expected to continue over the next 12 months.

While the outcome of the EU referendum is listed as one of the top three factors lowering business performance, of particular interest is that the proportion of freelancers citing it as a negative influence rises from 43 per cent when looking at the last three months, up to 53 per cent for the 12 month outlook.

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

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	Government's fiscal policy relating to freelancing (64.7%)	Government's fiscal policy relating to freelancing (72.3%)	Government's fiscal policy relating to freelancing (63.6%)	Government's fiscal policy relating to freelancing (67.0%)
2	Government regulation relating to hiring freelancers (62.9%)	Government regulation relating to hiring freelancers (67.8%)	Government regulation relating to hiring freelancers (57.0%)	Government regulation relating to hiring freelancers (62.4%)
3	Outcome of the EU referendum (57.1%)	Outcome of the EU referendum (50.6%)	Outcome of the EU referendum (53.7%)	Outcome of the EU referendum (53.4%)

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

While macro-economic and public policy factors are cited as the main constraints on business performance, factors relating to freelancers taking control of their own destiny are cited as the main positive drivers of business performance. Building one's own brand/reputation in the marketplace is identified as the most important factor for enhancing business performance over the last three months (Table 5), and this is expected to continue to be the most important positive driver over the next 12 months as well (Table 6).

Growth in the sector in which the freelancer works is cited as the second most important factor over the last three months (table 5), but this drops down to the third most important factor over the next 12 months (Table 6). This drop is only in relative terms and occurs because of a rise in the proportion of freelancers who cite innovation and further brand building as the main drivers of business performance over the next 12 months.

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

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	Growth of the sector in which I work (41.7%)	My brand value/ reputation in the market (42.1%)	My brand value/ reputation in the market (42.4%)	My brand value/ reputation in the market (39.4%)
2	Collaboration with other freelancers/businesses to secure more work (33.3%)	Growth of the sector in which I work (27.6%)	Growth of the sector in which I work (32.8%)	Growth of the sector in which I work (33.0%)
3	My brand value/ reputation in the market (30.6%)	Innovation in terms of the services I offer clients (26.5%)	Innovation in terms of the services I offer clients (29.8%)	Collaboration with other freelancers/businesses to secure more work (25.4%)

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

The freelancer business confidence index becomes increasing negative as the outlook moves from a three month to a 12 month horizon. It follows that most freelancers do not believe that their own micro level actions to enhance business performance will be able to overcome the negative macro effects caused by Brexit and public policy.

These observations tally with the partial recovery in freelancer business confidence witnessed in the latter half of 2016, which may have been driven by organisations making greater use of a variable cost freelance labour

model as a risk management initiative. At the same time, it may be that freelancers are unsure of the sustainability of business demand, particularly until they know the real impact of Brexit. This view is also consistent with the regular announcements in the media by organisations who use high skilled professional and technology freelancers, indicating that they are likely to move some of their operations from the UK to the EU in order to avoid being cut off from the European single market after Britain leaves.

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

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	My brand value/ reputation in the market (38.2%)	My brand value/ reputation in the market (42.5%)	My brand value/ reputation in the market (52.5%)	My brand value/ reputation in the market (45.4%)
2	Collaboration with other freelancers/businesses to secure more work (37.1%)	Growth of the sectors in which I work (32.7%)	Targeting new markets (41.8%)	Innovation in terms of the services I offer clients (34.9%)
3	Innovation in terms of better processes and operations (34.3%)	Innovation in terms of the services I offer clients (31.1%)	Innovation in terms of the services I offer clients (40.5%)	Growth of the sectors in which I work (34.8%)

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



Freelancer UK Economy Confidence Index

Freelancers have steadfastly predicted a decline in the performance of the UK economy since Q2 of 2016. While their pessimism about the economy reached its lowest point in Q2 of 2016 (with record negative index scores for both the three and 12 month outlook), it has settled to the downbeat levels of minus -16 for the three month outlook and minus -25 for the 12 month outlook. While most freelancers

have been expecting a decline in the economy, a significant proportion expect that this decline will not become apparent until later on in the year. This view is consistent with a perspective that Brexit will not have negative effects on the economy until the exit process actually starts to occur which now seems more likely following the triggering of Article 50 in March of this year.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 1: 2017	-20.9	-15.6	-13.6	-16.1
Quarter 4: 2016	0	-22.8	-17.6	-15.5
Quarter 3: 2016	-21.4	-13.2	-17.7	-16.9
Quarter 2: 2016	-50.0	-36.0	-32.5	-37.8
Quarter 1: 2016	-5.0	-18.0	-8.9	-11.3

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 2016.

It is striking that freelancers continue to hold firm on their negative view since Q3 of last year despite the UK economy performing reasonably well over the same period. Freelancers don't appear reassured by the boost in the performance of the economy that in part has been caused by the post-referendum fall in the value of Sterling which has helped export competitiveness. This ought not to be surprising as freelancers are in an advantageous position to gauge the future growth plans of businesses. This is particularly the case in this report, as the type of freelancers surveyed are usually hired to drive future business growth through innovation, technological transformation, entrepreneurship and de-risking business growth, and therefore would be expected to be one of the first sectors to receive advance warning that business investment plans are

changing. It is also noteworthy that there is little deviation in the negative view of freelancers on the prospects for the UK economy across SOC1-3. In some respects the economic forecasting power of freelancers will be on the line as the economy evolves in the wake of the triggering of Article 50.

While freelancers' pessimistic view of the economy is built into their loss of confidence in the future prospects for their own businesses' performance, it is nevertheless notable that they still see government fiscal and regulatory policy as far more threatening forces. To some extent, this is encouraging as it implies that the future of the UK freelance business sector will mainly be determined by self-determination (i.e. the shape of public policy) rather than its commitment to exit the European Union.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 1: 2017	-23.3	-27.2	-24.8	-25.3
Quarter 4: 2016	-16.7	-36.8	-28.7	-28.9
Quarter 3: 2016	-35.7	-24.8	-27.2	-28.3
Quarter 2: 2016	-50.0	-39.3	-35.7	-40.3
Quarter 1: 2016	-25	-24.7	-12.3	-19.7

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 2016.

Summary

The results of this latest IPSE Confidence Index shows that freelancers are not reassured by the relatively good performance of the UK economy since the outcome of the EU referendum was announced. Instead they expect the performance of both the UK economy and the freelance business sector to decline over the next year. Their confidence levels are now at the second lowest level since records began and are uniformly negative across all occupational codes covered by the survey sample. Freelancers identify government policy and Brexit as the main factors that are negatively affecting their business performance. They expect

the negative impact of these factors to intensify over the next 12 months with the performance of freelancer businesses deteriorating over this period of time. Notably, freelancers believe that government regulations and fiscal policy relating to freelancing have more serious negative consequences for their business sector than Brexit. This indicates that freelancers believe that the performance of the UK's freelance sector over the next 12 months can be mainly self-determined by the actions of the UK government rather than the impact of any negotiations over Brexit.

The Sample

The quarterly IPSE Confidence Index report for Q1 of 2017 was compiled from a database of 1,053 IPSE members as well as other freelancers working in SOC1-3 occupations who replied to an online survey. In Q1 of 2017, the survey composition of respondents was: 16% female to 84% male,

an average age of 49, have been freelancing for an average of 8.6 years and are highly educated – 33% have a highest qualification at the postgraduate degree level while 51% 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.