ipse The Association of Independent Professionals and the Self Employed

IPSE Confidence Index Q3 2017

Economist's Perspective

The third quarter of 2017 shows freelancers' confidence increasing since record lows in the second quarter. Yet, with rising inflation and the potential for interest rate hikes leading to a gloomy overall outlook for the UK economy, there are still issues playing on their minds.

Stagflation, which occurs through a combination of high inflation and slowing economic growth, is becoming closer to reality for many freelancers around the UK. Inflation has reached a five-year high of three per cent and economic growth forecasts have been downgraded, therefore the Government must be prepared to deal with this issue should trends continue.

Freelancers are predicting that their input prices will rise by 11 per cent over the next 12 months, and it appears that the real costs of the huge depreciation of sterling since the Brexit announcement is now feeding into high inflationary pressure on the cost of doing business. Even if interest rates were increased to combat inflation – as has been discussed – it is highly likely that the sterling will remain weaker than its pre-Brexit value.

Fuel and transport costs are contributing significantly to the climbing inflation, as a result of tensions in the Middle East. This is particularly bad news for freelancers who tend to be more mobile than the rest of the working population. They regularly travel long distances to reach their clients so the rise in transport costs will be an unwelcome contribution to freelancers feeling the pinch.

If day rates had maintained pace with inflation, then freelancers may have had some reason to celebrate compared to the rest of the working population. However, according to the latest Freelancer Confidence Index (FCI) survey, this is not the case. Freelancers average day rates fell from £525 in quarter two (Q2) 2017 to £489 in quarter three (Q3) 2017 – though this quarter traditionally returns lower day rates. With inflation rising and average day rates falling, some freelancers may have to navigate their way around the rising cost of living. Of freelancers surveyed, 50 per cent expect their day rate to fall over the next 12 months.

The political agenda is not so rosy for freelancers either. The recent changes to the way IR35 status is determined in the public sector has resulted in many freelancers walking away from contracts. Some feel the same measures could be rolled out in the private sector in the upcoming Budget.

The average day rates of freelancers may be impacted by the changes to the IR35 rules. If contractors are leaving the public sector to work in the private sector, the average day rate for public sector contractors could rise due to short supply.

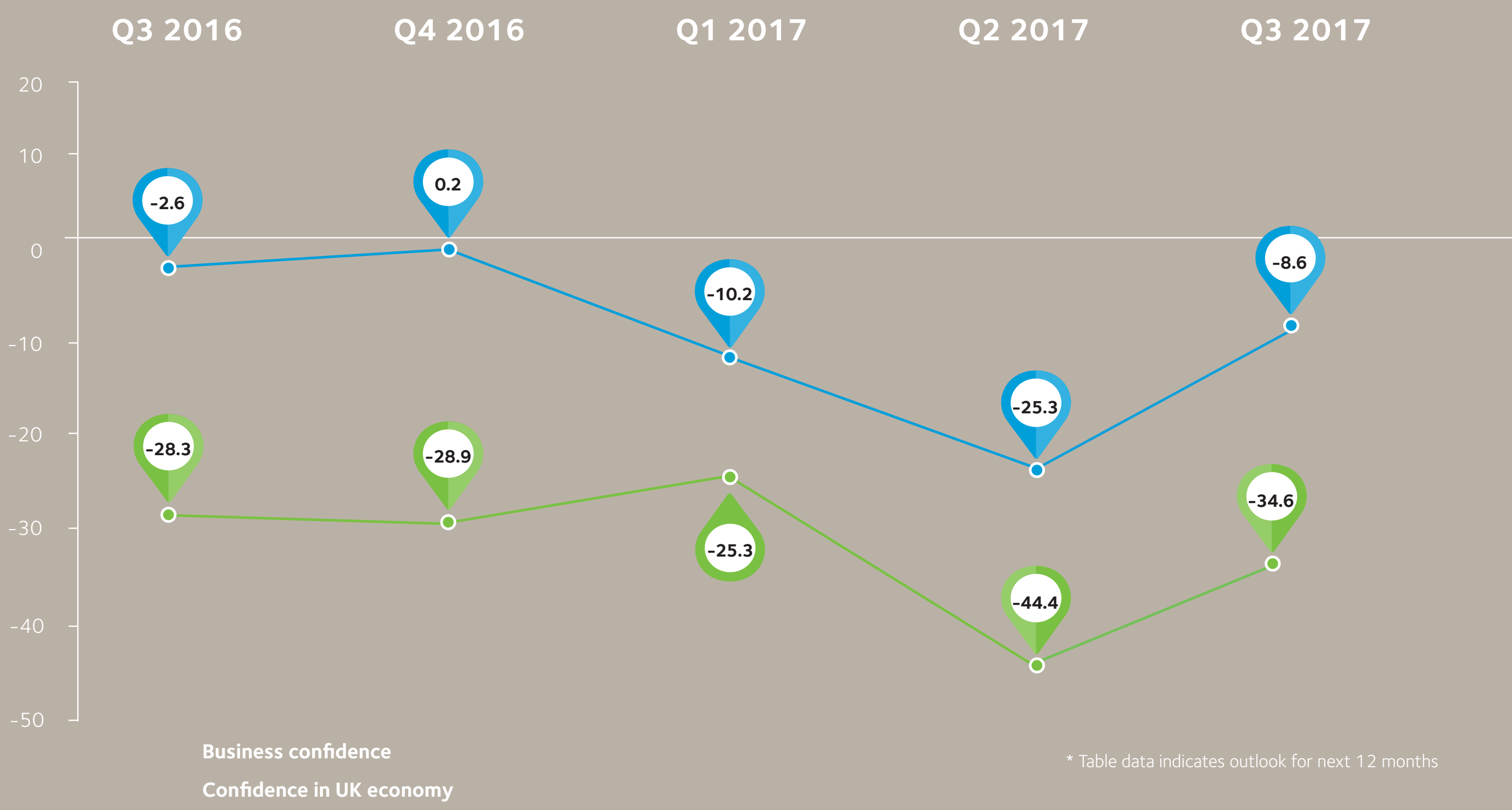
The Chancellor was also forced to significantly downgrade productivity growth from 1.6% to 0.2% at an estimated cost to the Exchequer of £17 billion. Freelancers will hope that the Chancellor does not look to freelancers to foot this bill as the flexible labour market is going to be key to navigating our way through any economic troubles going forward.

Freelancers confidence increasing but remains concerningly low

Freelancer Confidence Index:

-8.6

(From -100 to +100)



Business cost

82%

of freelancers believe their costs will **increase**

Top factors lowering business performance in Q3 2017

75%

Government's fiscal policy relating to freelancing

67%

Government regulation relating to hiring freelancers

57%

Outcome of the EU referendum

Demand for freelance work

Amount of time freelancers have been on assignment

Q3 2017 — **80%**

Q2 2017 — **83%**

Q1 2017 — **85%**

Q4 2016 — **80%**

Q3 2016 — **74%**

Over the last **12 months** freelancers have been on assignment for, on average, **82%** of the time

Defining freelance status

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

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

Executive Summary

Freelancer Business Confidence Index

- Freelancers expect their businesses to perform below current levels over the next 12 months.
- Brexit and Government policy are still named as the main causes of the downturn in the freelance sector.
- Brand-reputation building is identified as the most effective strategy enhancing freelancers' business performance.

Freelancer UK Economy Confidence Index

- The majority of freelancers predict growing inflationary pressure and an economic slowdown in the next 12 months.

Day Rates

- Overall, freelancers' day rates have risen over the last 12 months, but they are 7 per cent down compared to the last quarter.

Capacity Utilisation

- Capacity utilisation has dropped slightly, but remains high at 80 per cent of maximum potential activity.

Quarterly Earnings

- Quarterly earnings are down 10 per cent since the start of the 2017, but have risen compared to the same quarter last year, when they dropped to a record low.

Freelancer Business Confidence Index

Ever since the EU referendum, freelancers' business confidence has been low. This is still the case. In Q3 freelancers' business confidence remains low, even though it has not yet dipped back to the record lows of Q2 – both in terms of three and 12 month business outlooks.

In reports from earlier this year we observed how freelancers' business confidence had plummeted and how an increasing majority expected their business performance to decline. This trend appears to have temporarily stalled.

The three-month outlook business confidence index records a small majority of freelancers now expecting business performance to improve. The index value is in positive territory for the first time this year (Table 1). This result is mainly driven by SOC1 (managers, directors and senior officials) and 3 (associate professional and technical occupations) freelancers who both report a positive index value of 6.5. By contrast, SOC2 (professional occupations) freelancers expect their business performance to continue to decline over the next three months.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 3: 2017	6.5	-3.8	6.5	2.8
Quarter 2: 2017	-11.4	-10.5	-14.3	-12.2
Quarter 1: 2017	-6.4	-6.6	-1.4	-4.5
Quarter 4: 2016	15.6	-4.3	11.4	6.7
Quarter 3: 2016	-19.2	3.6	14.9	3.0

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 2016.

We noted in the last report that since the outcome of the EU referendum the 12-month outlook for freelancers business confidence has been significantly lower than the three-month outlook. This continues in the current survey (Table 2). While the three-month index has moved into positive values, the 12-month outlook remains negative, indicating that a majority of freelancers expect their business performance to decline over the next 12-months. However, freelancers' pessimism about the 12-month outlook for their business stopped worsening, with the index value actually improving from -25.3 in Q2 to -8.6 in Q3. SOC3 freelancers exhibit the main change in confidence. Their 12-month business outlook confidence index score changed from -26.3 to +4, which is a considerable turnaround. In contrast, both SOC1 and SOC2 freelancers still expect their business performance to decline over the next 12 months. However, their index scores are less negative than in the last quarter, which shows an improvement in sentiment.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 3: 2017	-15.4	-17.6	4.0	-8.6
Quarter 2: 2017	-25.0	-24.2	-26.4	-25.3
Quarter 1: 2017	-13.1	-15.6	-3.4	-10.2
Quarter 4: 2016	2.9	-15.9	12.7	0.2
Quarter 3: 2016	-32.1	-5.6	16.4	-2.6

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 2016.

Factors Affecting Business Performance

Despite being able to choose from an extensive range of public policy, economic and business-related factors impacting their business performance, freelancers have been steadfast in their belief that the top three factors that continue to negatively affect their business performance are all Government policy-related.

The top three factors outlined by freelancers last quarter were Government regulation, fiscal/taxation policy and Brexit respectively (Table 3). The only real change in their view from last quarter is that fiscal policy now appears to be identified as the main detrimental factor as opposed to Government regulation, which was previously at the top of freelancers' negative-influences list. The result of the EU referendum remains the third most important factor. However, it has moved up to second place for SOC1 freelancers. As we have pointed out before, all of the top three detrimental influences on freelancers' businesses are public policy related and therefore remedial action is actually within Government control.

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 (80.0%)	Government's fiscal policy relating to freelancing (80.0%)	Government's fiscal policy relating to freelancing (66.7%)	Government's fiscal policy relating to freelancing (74.7%)
2	Outcome of the EU referendum (76.0%)	Government regulation relating to hiring freelancers (76.7%)	Government regulation relating to hiring freelancers (55.6%)	Government regulation relating to hiring freelancers (67.2%)
3	Government regulation relating to hiring freelancers (72.0%)	Outcome of the EU referendum (59.2%)	Outcome of the EU referendum (44.4%)	Outcome of the EU referendum (57.4%)

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 factors that freelancers point out as promoting their business performance, building a 'brand and reputation' has now been identified as the top factor of importance by freelancers across occupational groups SOC 1-3. Those outlining this factor have increased from 57 per cent in Q2 to 63 per cent in Q3 (Table 4).

Innovation in terms of services offered is still in the top three positive influences on business performance. However, it has dropped from being the second most important factor last quarter to number three in the current quarter. This factor has been overtaken by the benefits derived from collaboration with other freelancers – an indicator which did not feature in the top three positive factors influencing business performance in the previous quarter's survey. There is also a rise in the importance of adopting flexible labour among SOC1 and SOC2 freelancers, which also did not make the top three for any freelancer occupational group in last quarter's survey.

These two factors point toward a wider usage of the freelancer business model by industry (demand) and in the workforce (supply). It is notable that unlike the detrimental factors which are all external to their businesses, the top three positive influences on freelancers' business performance are all internal to their businesses and self-determined by the freelancers themselves. This tells us that freelancers believe that their own effort, talent and strategic choice are currently driving their business success as opposed to any exogenous external factors, related to the business environment.

Table 4: Top factors enhancing freelancers' business performance

Rank	SOC1	SOC2	SOC3	Weighted Average SOC1-3
1	My brand value/ reputation in the market (64.0%)	My brand value/ reputation in the market (58.9%)	My brand value/ reputation in the market (66.7%)	My brand value/ reputation in the market (63.2%)
2	Collaboration with other freelancers/businesses to secure more work (52.0%)	Growth of the sector in which I work (46.7%)	Innovation in terms of the services I offer clients (55.6%)	Collaboration with other freelancers/businesses to secure more work (49.2%)
3	Adoption of flexible working practices by organisations (52.0%)	Adoption of flexible working practices by organisations (43.3%)	Collaboration with other freelancers/businesses to secure more work (55.6%)	Innovation in terms of the services I offer clients (48.3%)

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

Freelancers predicted the slowdown of the economy in 2017 and there is good reason to believe that we should take their economic forecasts seriously. The occupational groups of freelancers dominating this survey are in a position to observe the early indicators of a slowing economy. Being predominantly managerial, professional, technological and technical freelancers, they are typically contracted on projects involving business growth, innovation, technological change and entrepreneurship. Consequently, they have the opportunity to observe their business clients scaling down plans for firm growth and innovation and may make predictions based on these observations.

Ever since the result of the EU referendum, freelancers have had very little confidence in the UK economy. In Q2 their confidence plummeted to record low levels for both the three and 12 month economic outlook. In Q3, freelancers' confidence is only marginally better with the three-month outlook index score, rising from -34.0 to -20.4. This indicates that a very large majority of freelancers expect the economic performance of the UK to deteriorate over the next three months. These changes and sentiments are similar across the freelancer occupational SOC groupings 1-3 (Table 5).

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 3: 2017	-28.8	-21.7	-14	-20.4
Quarter 2: 2017	-37.0	-36.6	-29.7	-34.0
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

Freelancers were asked to rate their confidence for the futre 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 2016.

Freelancers' economic outlook for the next 12 months remains even gloomier than their outlook for the upcoming three months (Table 6). Freelancers' 12-month economic outlook index score is slightly more optimistic, rising from -44.4 to -34.6. This modest increase has occurred across all three freelancer occupational groups: SOC 1-3.

Consequently, with deeply negative economic confidence across all freelancer groups, it seems clear that they believe that the UK economy will not perform as well over the next 12 months compared to current levels. While this lack of confidence is not as low as the record levels recorded last quarter, the index is still emphatically negative.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 3: 2017	-38.5	-36.9	-30.0	-34.6
Quarter 2: 2017	-54.3	-50.7	-32.4	-44.4
Quarter 1: 2017	-23.3	-27.2	-24.8	-25.3
Quarter 4: 2016	-16.7	-36.8	-28.7	-28.9
Quarter 3: 2016	-35.7	-24.8	-27.2	-28.3

Freelancers were asked to rate their confidence in the future of the UK economy in one of five categories: more confident, slightly more confident, as confident, slightly less confident, and a lot less confident. The confidence index was created by scoring each of the five answers with 100, 50, 0, -50 and -100 respectively, then taking the weighted average score for the sample. The weighted average is based on the relative number of freelancers in the labour market in 2016.

Freelancer Day Rates

In Q2 freelancer day rates had increased by five per cent since the start of the year. Table 7 illustrates that these gains are completely lost in Q3. There is a seven per cent decline from the previous quarter with day rates standing at £489 in Q3 compared to £501 at the start of the year. However, in previous surveys freelancer day rates have typically been lower in Q3. Compared to day rates in the same quarter last year, they increased by 21 per cent. These general patterns apply across all freelancer occupational groups, with day rates down on Q2 but up on the same quarter last year.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 3: 2017	£591	£532	£387	£489
Quarter 2: 2017	£619	£542	£452	£525
Quarter 1: 2017	£539	£515	£465	£501
Quarter 4: 2016	£566	£479	£285	£419
Quarter 3: 2016	£601	£475	£231	£403

The weighted average is based on the relative number of freelancers in the labour market in 2016.

In Table 8 we observe the impact of freelancers' very low levels of business confidence on their expectations for future day rate trends. In Q2, a majority (55%) of freelancers forecasted a decline in day rates, which proved to be an accurate prediction. However, in Q3 exactly half of freelancers expect this to happen. During last quarter 40 per cent of freelancers expected day rates to increase over the next year, whereas in Q3 just 25 per cent expect this to happen. Combined, these effects appear to indicate an even stronger deflationary effect on day rates over the next 12 months. In short, most freelancers expect the fall in day rates that occurred this quarter to continue with an overall fall in day rates over the next 12 months.

Table 8: Expected changes to freelance day rate over the next 12 months

	SOC 1	SOC 2	SOC 3	Weighted Average SOC1-3
Increased	12%	39%	21%	26%
No change	6%	25%	36%	24%
Decreased	82%	36%	43%	50%

The weighted average is based on the relative number of freelancers in the labour market in 2016. Because of rounded percentages, the total may not always be 100.

Capacity Utilisation

Freelancers' capacity utilisation is down slightly on Q2 but up on the same quarter of last year. It currently stands at 80 per cent capacity utilisation, meaning that freelancers are not working for only 2.6 weeks out of a maximum of 13 weeks of potential work in the quarter. This trend is similar to the observed long-term pattern of fairly high capacity utilisation among freelancers in previous confidence index reports.

However, this small change has been driven by some very different trends across freelancer occupational groups. In Q3, SOC3 (associate professional and technical occupations) freelancers experienced a record high capacity utilisation rate of 86 per cent while SOC2 (professional occupations) freelancers had a record low of 78 per cent capacity utilisation. SOC1 (managers, directors and senior officials) freelancers, on the other hand, experienced a below average capacity utilisation rate of 75 per cent, meaning that they were not working for 3.3 weeks out of a possible 13.

These countervailing effects somewhat cancel each other out. Capacity utilisation has fallen in the more highly skilled and better paid occupational codes while it has risen in the less skilled/paid SOC3 occupational group.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 3: 2017	3.3	2.9	1.8	2.6
Quarter 2: 2017	1.2	2.2	2.9	2.2
Quarter 1: 2017	1.4	2.3	1.9	1.9
Quarter 4: 2016	2.4	2.4	3.0	2.6
Quarter 3: 2016	4.5	2.7	3.5	3.4

The weighted average is based on the relative number of freelancers in the labour market in 2016.

Quarterly Earnings

Considering that both day rates and freelancer capacity utilisation have fallen since Q2, it probably comes as no surprise that freelance quarterly earnings have also declined over the same period. In fact, the decline is enough to reverse a four per cent rise in freelancer earnings since Q1 of this year and to create a 10 per cent decline in earnings since the start of the year.

The fall was, however, forecast in last quarter's survey, with a major drop in freelancers' confidence about the outlook for their businesses, including a majority of respondents predicting a decline in performance. This decline in earnings is universal, with all freelancer occupational groups experiencing a fall in income. It is, however, notable that there were also very low earnings in the same quarter last year, and when compared to these, freelancer earnings are in fact up by 30 per cent.

There is no doubt that very low business confidence has played a role in the decline of freelancer earnings since the start of the year. Nevertheless, it also seems likely that seasonality and perhaps an unsustainably high growth in earnings since the same quarter last year – hence requiring some downward adjustment to more sustainable levels – have also played a significant part in this outcome.

Table 10: Freelancers' average quarterly earnings

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Quarter 3: 2017	£27,785	£26,701	£22,174	£25,179
Quarter 2: 2017	£36,733	£29,313	£23,583	£28,847
Quarter 1: 2017	£31,395	£27,402	£26,168	£27,832
Quarter 4: 2016	£29,236	£25,595	£14,345	£21,805
Quarter 3: 2016	£26,158	£24,889	£10,879	£19,422
Quarterly equivalent employee earnings 2016 (ONS estimates*)	£10,192	£9,321	£7,722	£8,906

The weighted average is based on the relative number of freelancers in the labour market in 2016.

**Employee earnings are based on Office for National Statistics (ONS) data on employees' gross weekly earnings, as reported in the Annual Survey of Hours and Earnings, October 2016.*

Freelancers' Business Costs

In Q2 we observed some fairly categorical predictions of input price inflation for freelancers' businesses, with 92 per cent predicting a price increase compared to just four per cent forecasting a price fall.

This quarter, the results are arguably as emphatic. Currently, 82 per cent of freelancers expect the input costs for their businesses to increase. While this is a 10 percentage points decrease compared to last quarter, this negative view is backed up by an overwhelming majority of freelancers. Furthermore, only two per cent of respondents now expect business costs to fall (Table 11) – a two percentage point decrease since last quarter. These expectations are fairly uniform across all freelancer occupational groups. SOC 1-3, however, appear to be the most downbeat about their business costs over the next 12 months.

Freelancers are also predicting immense input price increases – many multiples the level of UK inflation (Table 12). Overall, they expect input prices to rise by 11 per cent with little variation between occupational codes. This means that respondents from all groups expect input price inflation to be at or close to double digit levels and hence many multiples of current UK inflation rates. These much higher rates are likely to reflect the significant drop in the value of sterling, which may cause a rise in import prices. The trend is caused by the expectation that overseas suppliers will raise the price of their goods/services to compensate for the sterling's lower value.

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

	SOC1	SOC2	SOC3	Weighted Average SOC1-3
Increased	81%	76%	89%	82%
No change	19%	20%	11%	16%
Decreased	0%	4%	0%	2%

The weighted average is based on the relative number of freelancers in the labour market in 2016. Because of rounding percentages, the totals may not add up to 100.

Summary

Freelancers have had a difficult quarter, in which they have faced not just falling day rates, but also a drop in capacity utilisation and overall earnings. They are now also anticipating a significant squeeze in their net income because of an expected double-digit increase in their costs.

Even though freelancers' business outlook is now slightly more optimistic than last quarter, they expect the sector as a whole to perform below current levels over the next 12 months. They place most of the blame for this on public policy: especially in terms of taxation, regulation and Brexit – in that order. And they are even more pessimistic about the UK economy over the next 12 months, expecting it to perform to a lower levels than at present.

These predictions are all the more concerning because freelancers have so far proven to be astute forecasters – both of their own business performance and the wider UK economy. It was particularly striking that last quarter, despite recent upward trends, freelancers overwhelmingly predicted an imminent drop in their earnings. They were proved correct in this quarter.

The accuracy of this and other counter-trend forecasts from freelancers suggests that they are not basing their predictions just on extrapolations from recent history. Rather, they also seem to be using information about future business performance. This information appears to have caused a major drop in confidence in this latest report – both about freelancers' own businesses and about the wider UK economy.

It's likely this additional information relates to technological change, new projects, business growth and their clients' plans – or lack of plans – for future innovation. Therefore, freelancers' pessimism about the economy over the next 12 months most likely reflects the intentions of the corporations and SMEs they work with.

Overall, while freelancers expect both the performance of their businesses and the economy to decline over the next 12 months, they appear to have more confidence in their businesses than in the wider economy. This seems to be a result not just of information about their businesses, but also of certain psychological factors. Because, while the UK economy is very much out of their hands, freelancers feel they have much more control over their own businesses – demonstrated by the fact that they named various strategic decisions they could make as the top three ways to improve their business performance. And this self-determinism seems to have the psychological effect of boosting their confidence that they can navigate their businesses through difficult economic times.

Interestingly, freelancers also think that the top three factors having a detrimental effect on their business performance are Government policies. Thus, freelancers believe that changing Government policy could play a significant part in improving their business performance in what are, by any measure, challenging economic times.

The Sample

The IPSE Freelancer Confidence Index report for Q3 of 2017 was compiled from 331 IPSE members who replied to an online survey. The survey is conducted every quarter. In Q3 2017, the composition of respondents was: 17% female and 83% male, with an average age of 48. Respondents have been freelancing for an average of 11.7 years and are highly educated: for 35% their highest qualification is a postgraduate degree or equivalent, and for 54% it is an undergraduate degree or equivalent.

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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.

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.

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