

ipse

CONFIDENCE

index

2019

A quarterly survey that tracks the business performance and economic outlook of freelancers in the UK.

 **peopleperhour**



Mission statement

IPSE's Confidence Index is a quarterly report that tracks the business performance and economic outlook of freelancers across the UK. It is the only established index of its kind, using rigorously tested methodology and a representative sample of the freelance sector.

The index was created both to inform policy on freelancers and to ensure that their vital contribution is understood and recognised. The aim is for the Confidence Index to be the authoritative indicator used by policymakers at the heart of industry and government.



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Defining freelance status

*For more information on the SOC groups, please refer to page 23.



**Managers, directors
and senior officials**

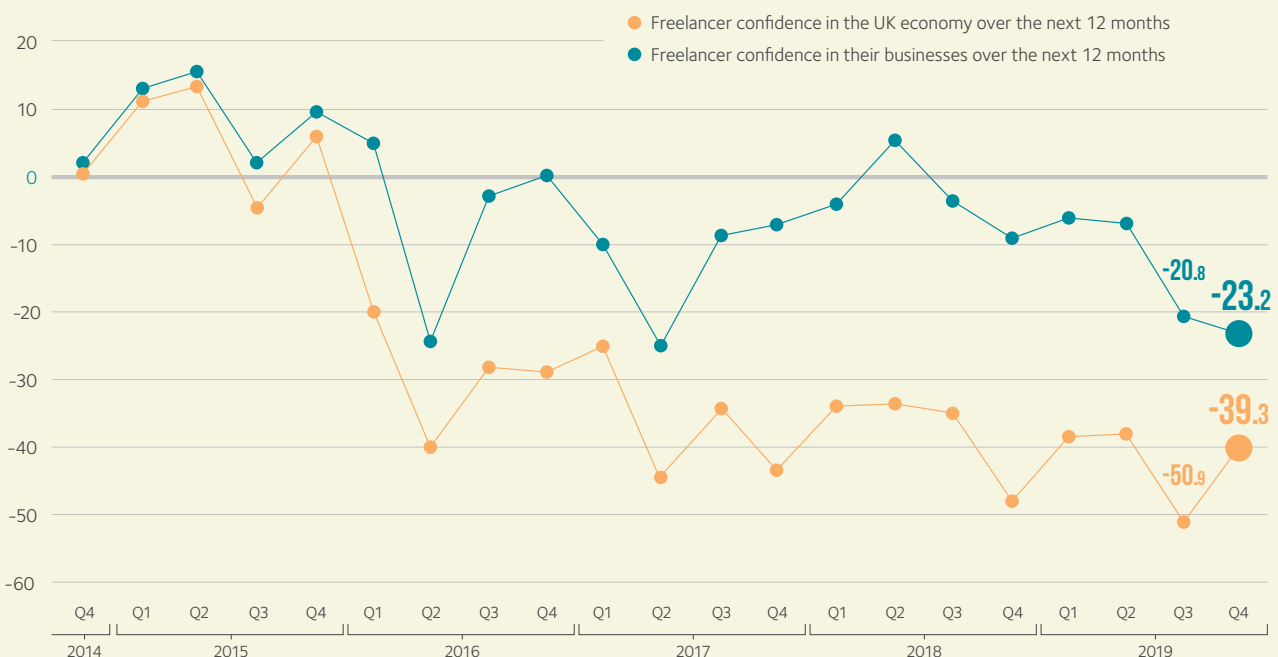


**Professional
occupations**



**Associate professional
and technical occupations**

Freelancers' confidence in their businesses and the UK economy

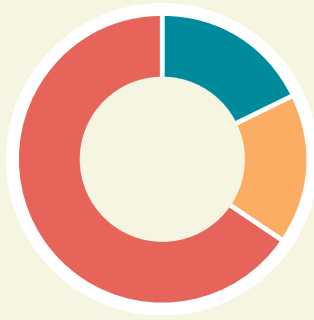


Confidence in the UK economy for the next 12 months

More Confident
(18%)

As Confident
(17%)

Less Confident
(66%)

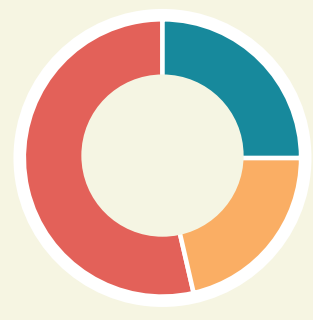


Confidence in their business for the next 12 months

More Confident
(25%)

As Confident
(21%)

Less Confident
(53%)



Top factors lowering business performance in Q4 2019



State of the UK economy

67%



Government tax policy relating to freelancing

65%



Government regulation relating to hiring freelancers

62%



Brand value and reputation in the market

62%



Innovation in the services offered to clients

56%

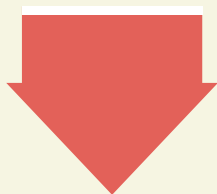


Innovation in terms of better processes and operations

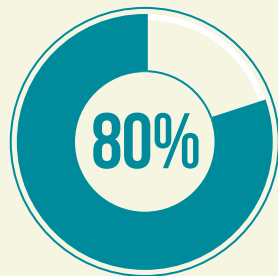
51%

*Freelancers were asked to rate the importance of 14 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 impact.

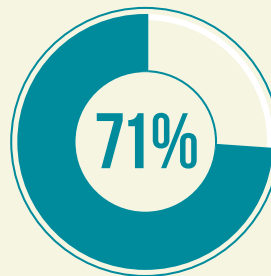
1.1%



Freelancers expect an average **decrease of 1.1%** in their day rates over the next 12 months



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



71% of freelancers believe their business costs will increase in the next 12 months



Freelancers expect an average **increase of 8.5%** in their business costs in the next 12 months

Executive summary

- Freelancers' confidence in their own business performance for the next 12 months has dropped because of concerns about the state of the UK economy and Government taxation policy. This is likely specifically because of the changes to IR35 that are due in the private sector.
- Freelancers' business confidence over the next three months has dropped to -14.7, the lowest on record.
- Confidence in the wider economy has risen as a result of the expected reduction of Brexit uncertainty – although it still remains in negative territory.
- Freelancers' average quarterly earnings have dropped by six per cent since last quarter. This was driven by a significant drop in SOC1 freelancers' day rates (SOC2 and 3 freelancers' rates rose) and a drop in capacity utilisation.
- 71 per cent of freelancers expect their business costs to rise in the coming 12 months – by an average of 8.5 per cent.



This quarter, freelancers' business confidence for the next three months has dropped to a record six-year low of -14.7 because of concerns about the state of the UK economy and Government taxation policy. Their 12-month business confidence has also been driven to -23.2, the third-lowest level ever, for the same reason.

The drop in business confidence seems to be driven by one taxation policy in particular: the changes to IR35 due to come into the private sector in April.

The fall in confidence was among the SOC1 and SOC2 freelancers who are most likely to be affected by the changes. SOC3 freelancers' confidence in their business performance actually jumped back into positive territory both in terms of the next three months and the next 12 months.

The drop in freelancers' business confidence is all the more striking because it contrasts with an improvement in their confidence in the wider economy. Freelancers' economic confidence has risen from record lows last quarter – both in terms of the next three months (from -45.0 to -36.8) and the next 12 months (from -50.9 to -39.3).

This is likely because the survey for this quarter took place shortly before the 2019 election, when it was expected a Conservative majority would break the Brexit logjam in parliament and reduce the uncertainty and anxiety about the UK leaving the EU.

There was also a six per cent drop in freelancers' average quarterly earnings this quarter. This was driven by both a fall in their average day rates and a rise in their spare capacity (the amount of time they are not working per quarter).

Freelancers' day rates spiked last quarter, especially among SOC1 freelancers, which could potentially be explained by them charging more and working more to prepare for rockier times ahead (both the changes to IR35 and Brexit).

The drop in quarterly earnings seems to be predominantly driven by SOC1 freelancers lowering the exceptionally high rates they were charging last quarter. Overall, it appears to be a case of the market correcting itself and rates returning to more usual levels.

There is another factor to consider, however: compared to the same time 12 months earlier, all three groups' day rates and quarterly earnings have declined, meaning that overall 2019 was a deflationary year for freelancers. They do not expect the situation to improve in 2020 either. SOC1 and SOC2 freelancers expect their day rates to decline by 6.6 per cent and 10.8 per cent respectively – again, in contrast to SOC3 freelancers, who expect their rates to rise by an average of 11.8 per cent.

Despite a slight election-driven jump in overall confidence, therefore, the mood across the freelance sector seems to be broadly negative, especially among the SOC1 and SOC2 freelancers who are more likely to be limited company owners and expect to be harmed by the changes to IR35 due in April. Next quarter's Confidence Index will reveal interesting trends in freelancers' economic and business confidence as the survey will be taken after the UK leaves the EU and it will be directly in the run-up to the April IR35 changes.

Economist perspective

This quarter, there was a sharp distinction between freelancers' confidence in the economy and their confidence in their own businesses. Whereas before, both confidence measures were dropping sharply, this quarter, freelancers' economic confidence rose back to the mid-minus 30s, while their confidence in their own businesses continued to drop.

One reason for the small jump in economic confidence is that this survey was taken in the last two weeks of the general election, when polling and the currency markets suggested there was likely to be a Conservative majority. This meant freelancers could expect some kind of resolution to the Brexit impasse.

Rightly (as it turned out) believing the election result would mean an end to the Brexit logjam, freelancers' confidence in the economy returned to its general post-referendum level of around the mid-minus 30s.

Freelancers' overall confidence in their own businesses continued to drop, however. In fact, their 3- and 12-month outlook reached record lows in the last quarter of 2019. This was mainly because of the sharp dive in the confidence of freelancers in the SOC1 and SOC2 groups. Interestingly, SOC3 freelancers' confidence jumped back into positive territory.

This is most likely explained by the changes to IR35 due to come into force in the private sector in April. Freelancers in SOCs 1 and 2 are much more likely to be affected by these changes, and they expect them to have an overwhelmingly negative impact.

The IR35 rules to stamp out "false self-employment" are extremely complex. In 2017, they were changed in the public sector, creating confusion that led to mass walkouts and many contractors wrongly paying the higher tax rate of employees without any of the rights. It appears that anticipation of these same changes coming into the private sector is creating anxiety and uncertainty among the many SOC1 and SOC2 freelancers who expect to be affected.

This is borne out by confidence levels in the wake of the 2017 public sector changes. In the second quarter of 2017, there was a major dip in freelancers' economic and business confidence. Although part of this was because of the 2017 snap election, it is very likely the public sector IR35 changes were also a big factor. As a result, business confidence dipped to what was formerly the lowest level on record.

SOC3 freelancers are much less likely to be limited company owners who will be affected by the changes to IR35. Their confidence in their own businesses, therefore, has not continued to drop like previous quarters. Instead, their 3-month and 12-month confidence has taken a large swing back up into positive territory. This may reflect the breaking of the Brexit logjam and resultant drop in uncertainty.

There are other positive signs in the economy. Britain seems to have avoided a recession, with the Bank of England predicting a boost to investment once we leave the EU. Sentiments are more positive in the financial services sector too, according to the latest data (January 13th). However, the economy contracted somewhat during the election period. And there is an increasing expectation that the Bank of England will cut interest rates soon. As a result, there are signs the post-election boost to the economy is starting to dissipate.

One trend to note is that the price of gold has hit a post-recession high. Gold is seen as a safe haven to store wealth and previously peaked in the years after the 2008 crash when interest rates were extremely low but there was also little tangible investment in the economy. Perhaps the same is happening now as the debate moves on from Brexit to the wider economy.

Once again, the freelance community reflects much bigger trends in the wider economy. Brexit may be "done" for now but with the impending changes to IR35 and the continuing sluggishness of the global economy, there may still be more gloom to come.



Freelancer business confidence index

The 3-month freelancer business confidence index has fallen to its lowest level on record indicating that freelancers expect their business performance to decline over the first quarter of 2020.

Freelancers' business confidence plummeted after the outcome of the 2016 EU referendum result was announced and has not recovered since then. Throughout this period, it was assumed that uncertainty surrounding Brexit, as well as the negative economic consequences caused by it, were the main driving forces for the fall in freelancers' confidence in both their businesses and the UK economy.

Therefore, it could be expected for confidence to pick up in the latest quarterly survey when the uncertainty surrounding Brexit dissipated following the pro-Brexit Conservative party winning an overall majority in the December general election.

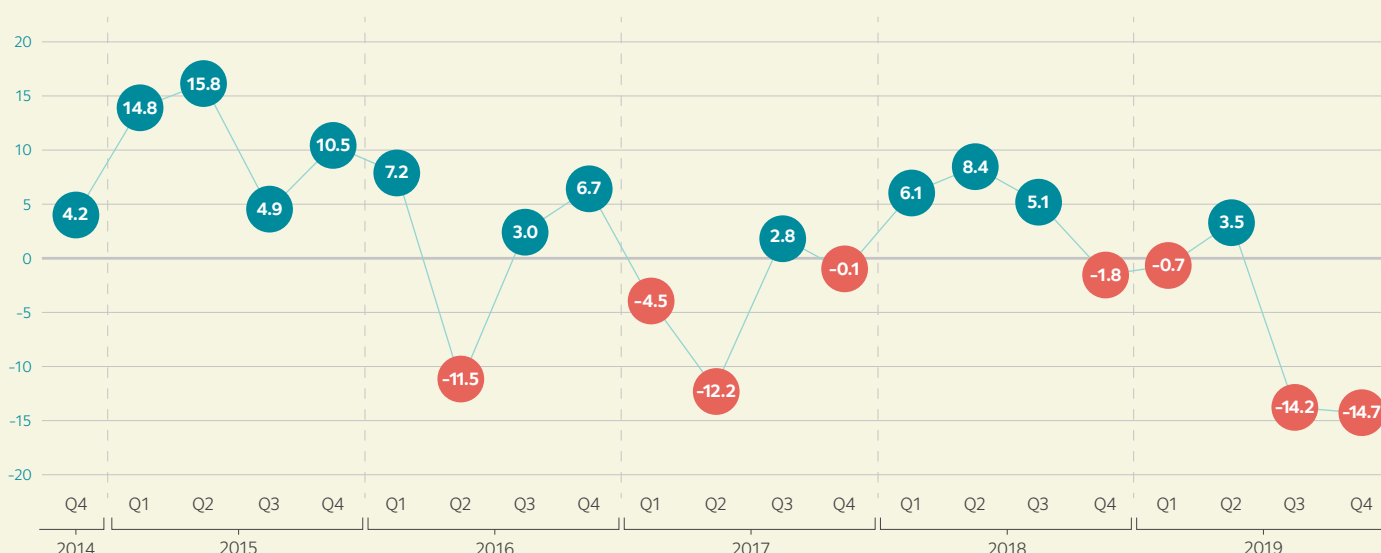
While most of the survey period took place before the election outcome was announced, it was fairly clear from opinion polls and movement of the UK sterling exchange rate in the

currency markets that a Conservative Party win with an overall majority is the most likely outcome. Despite this reduction in uncertainty, freelancers' business confidence remains low, indicating that the prospect of UK leaving the EU itself is still viewed as a major constraint on economic performance.

The 3-month freelancer business confidence index has fallen to its lowest level on record indicating that freelancers expect their business performance to decline over the first quarter of 2020. This fall in confidence arises from freelancers in Standard Occupational Categories (SOCs) 1 and 2 relating to managers, directors and senior officials and professional freelancers respectively. SOC3 freelancers in technical and associate professional occupations actually experienced an increase in business confidence, with their index score rising from -13.0 to 1.6.



Freelancer confidence index for their businesses over the next three months



*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 2019.

The 12-month index score shows confidence falling from

-20.8

-23.2

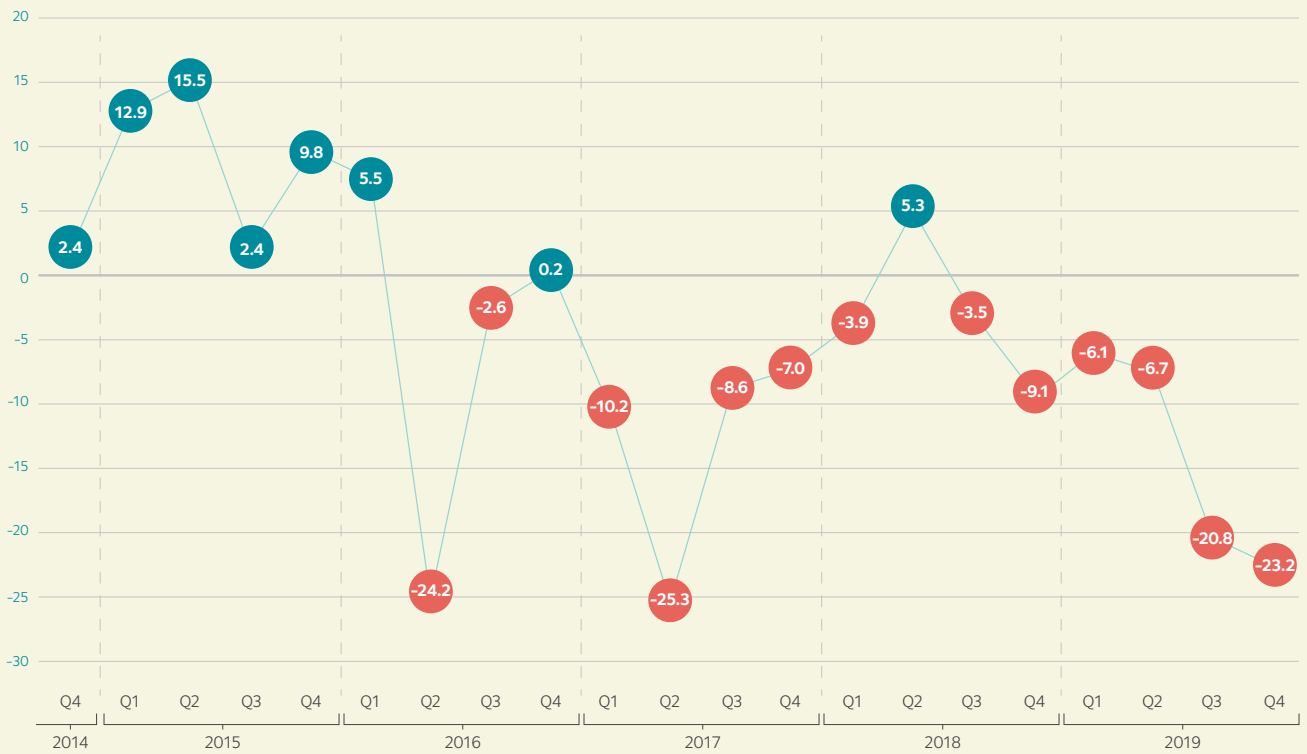
indicating a fairly strong expectation among freelancers that their businesses performance in 2020 will be lower than it was in 2019.

The pattern for the 12-month freelancer business confidence index is fairly similar except that the index scores are more emphatically negative. The overall index score shows confidence falling from -20.8 to -23.2, indicating a fairly strong expectation among freelancers that their businesses performance in 2020 will be lower than it was in 2019.

As with the 3-month quarterly outlook, this result is driven by SOC1 and SOC2 freelancers whose business confidence has fallen since last quarter. In the case of SOC2 professional freelancers, the 12-month business confidence index has fallen to the lowest level since records began (-50.8). By contrast, SOC3 freelancers' business confidence has increased from -9.5 last quarter to 2.6 this quarter, illustrating that by a very small margin they expect their business performance to improve in 2020.



Freelancer confidence index for their businesses over the next 12 months



*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 2019.



Factors affecting business performance

Top factors lowering business performance in Q4 2019



67%

State of the UK economy



65%

Government tax policy relating to freelancing



62%

Government regulation relating to hiring freelancers

The main causes of freelancers' lack of business confidence seem to be macroeconomic and public policy-related, as these comprise the top three negative influences on their business performance over the last 12 months – all cited by more than 60 per cent of freelancers.

The state of the UK economy is the most commonly cited factor having a detrimental effect on freelancers' business performance. This is closely followed by Government taxation and regulatory policies relating to freelancers.

The main change from last quarter is that the outcome of the EU referendum is no longer in the top three negative influences. However, as this event occurred over three years ago, many of the resulting negative influences of the uncertainty and impending impact of Brexit have filtered through to the economy and are already reflected by the UK economy variable.

This could potentially explain why over 60 per cent of all three SOC groups identify the state of the UK economy amongst the top three negative influences on their business performance.

There is some variation among the negative influences affecting each occupational group. SOC1 and SOC2 freelancers cite the same top three detrimental factors as the overall weighted average but in a different rank order. The only occupational group to deviate from the overall weighted average ranking are SOC3 freelancers who seem to be more sensitive to competition and international trade as noted in previous surveys.

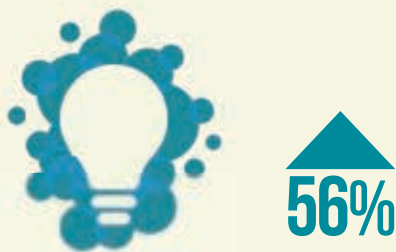
SOC3 associate professional and technical freelancers are also the only group to cite the outcome of the EU referendum (2nd most negative influence and identified by 57.6% of this group) and competition from other freelancers (48.2%) in their top three negative factors.

*Freelancers were asked to rate the importance of 14 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. The list of factors was updated in Q3 2019.

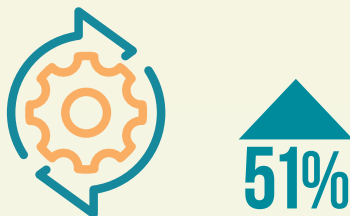
Top factors enhancing business performance in Q4 2019



Brand value and reputation in the market



Innovation in the services offered to clients



Innovation in terms of better processes and operations

*Freelancers were asked to rate the importance of 14 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. The list of factors was updated in Q3 2019.

While the factors having a negative influence on freelancers' business performance are all external to the business, the forces that have a positive effect are all internal. This has been a common finding across previous surveys.

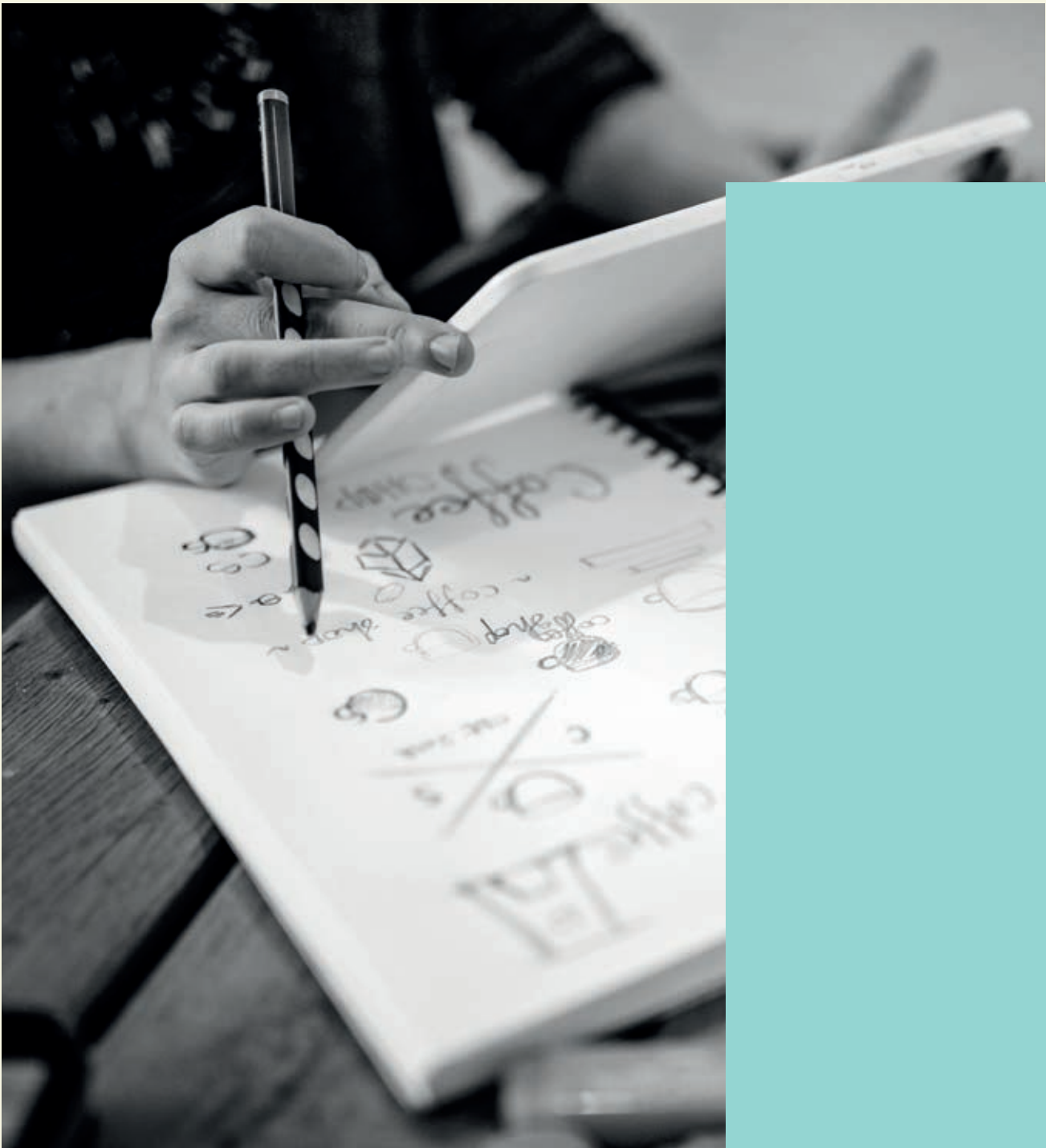
The top two positive influences on freelancers' business performance are the same as last quarter. Brand value and reputation is chosen as the most important positive influence – cited by 61.5 per cent of freelancers. Innovation in services offered is the second most important factor cited by 56.4 per cent of freelancers.

The main change from last quarter is that innovation in operations and processes has now become the third most important positive influence on business performance, displacing collaboration with other freelancers or businesses. This shows that if freelancers' businesses are to overcome the negative external environment, they must rely on the success of their innovation and brand building strategies.

This generally applies across all three occupational groups with the exception of SOC2 freelancers, who identify collaboration with other freelancers or businesses as their third most important positive effect. SOC3 freelancers selected targeting new markets as their second most important positive factor.

Again, positive business performance relies not on external factors but on self-determined business strategies.





Freelancer UK economy confidence index

Freelancers' 3-month outlook on the UK economy remains extremely negative at the fourth lowest level since records began.

The high level of uncertainty surrounding Brexit has led to stalled investment by businesses as they are unsure of the external economic environment in which they will be operating in the foreseeable future. It is therefore expected that as soon as this uncertainty is removed a significant backlog of business investment will be released.

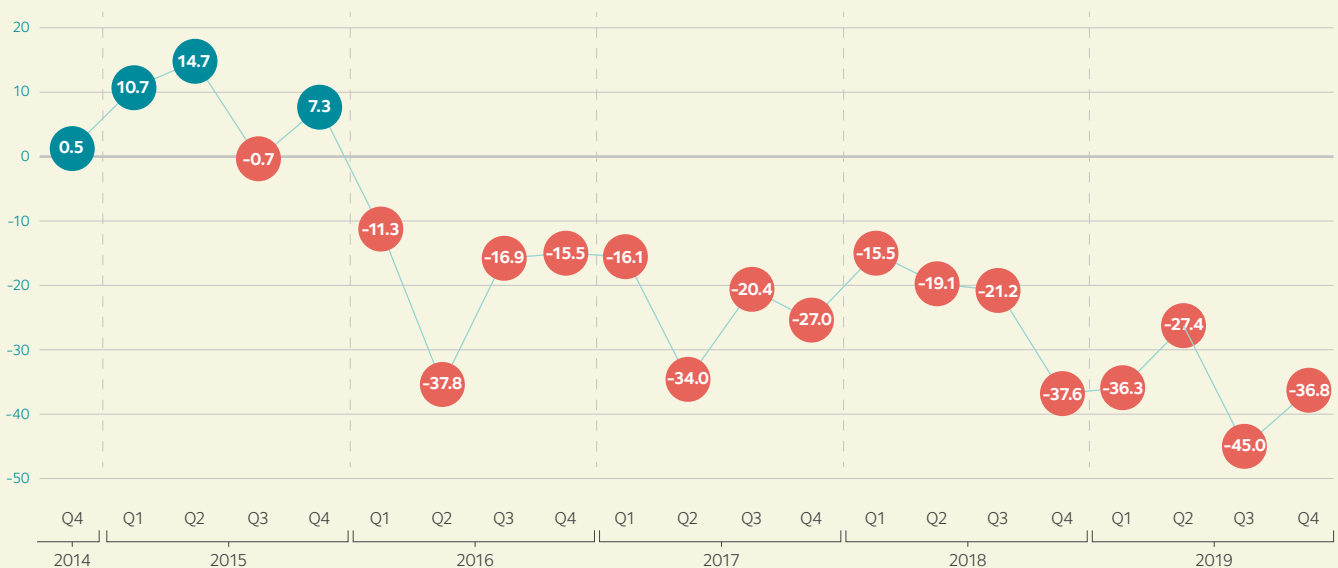
The Q4 2019 survey was conducted during a period when this level of uncertainty was greatly reduced but not removed completely. The currency markets had already responded positively to the reduction of uncertainty as the prospect of a hung parliament dissipated and the prospect of an overall Conservative majority became more likely.

Looking at the Q4 2019 Confidence Index results, however, there is some evidence that the drop in uncertainty is cutting through and improving confidence.

Despite this small boost, however, overall confidence in the economy remains in strong negative territory, indicating that they expect economic performance to decline in Q1 2020.

The low confidence index score is consistent across all three occupational groups. It has, however, risen from the all-time low of the previous quarter.

Freelancer confidence index for the UK economy over the next three months



*Freelancers were asked to rate their confidence for the future in one of five categories: more confident, slightly more confident, as confident, slightly less confident, and a lot less confident. The confidence index was created by scoring each of the five answers with 100, 50, 0, -50 and -100 respectively, and then taking the weighted average score for the sample. The weighted average is based on the relative number of freelancers in the labour market in 2019.

Freelancers' 12-month economic outlook improves slightly from

-50.9

-39.3

but remains in deep negative territory.

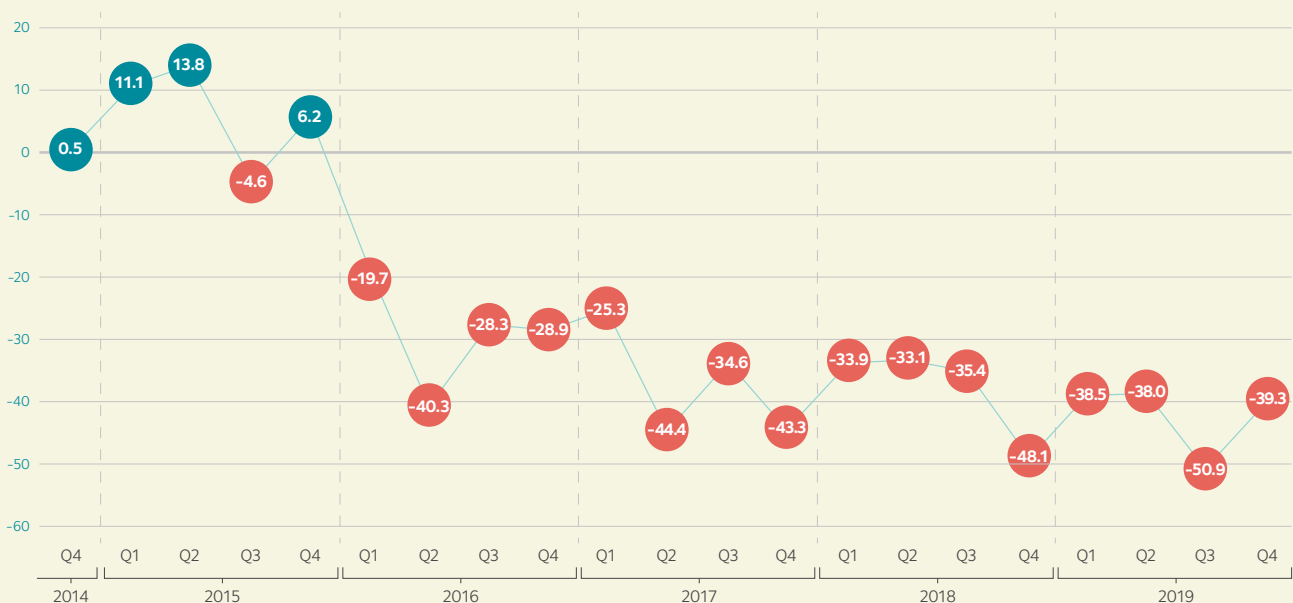
A similar pattern can be found for freelancers' 12-month outlook on the UK economy with all freelancer occupational groups expecting the economy to underperform in 2020 in comparison with 2019 levels.

Again, there is a slight positive interpretation in that the current deep negative UK economy confidence index score is an improvement on the record low score recorded last quarter.

This could potentially be explained by the reduction in uncertainty surrounding Brexit, but it is too early to tell given that much of the survey was completed before the election result was known.

Equally, it could be expected that the challenges posed by the UK leaving the EU are now only becoming a reality and that these negative influences may not yet be factored in or are already offsetting some of the positive influences expected from reduction in uncertainty. In this regard, a lot will become much clearer in the next survey which will be conducted in Q1 2020.

Freelancer confidence index for the UK economy over the next 12 months



*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 2019.

Capacity utilisation

Spare capacity rose slightly from **2.5**  **2.6** WEEKS

in Q4 2019 -
from **19.2** per cent
to **20** per cent.

In terms of business volume, freelancers have experienced an overall decline since last quarter.

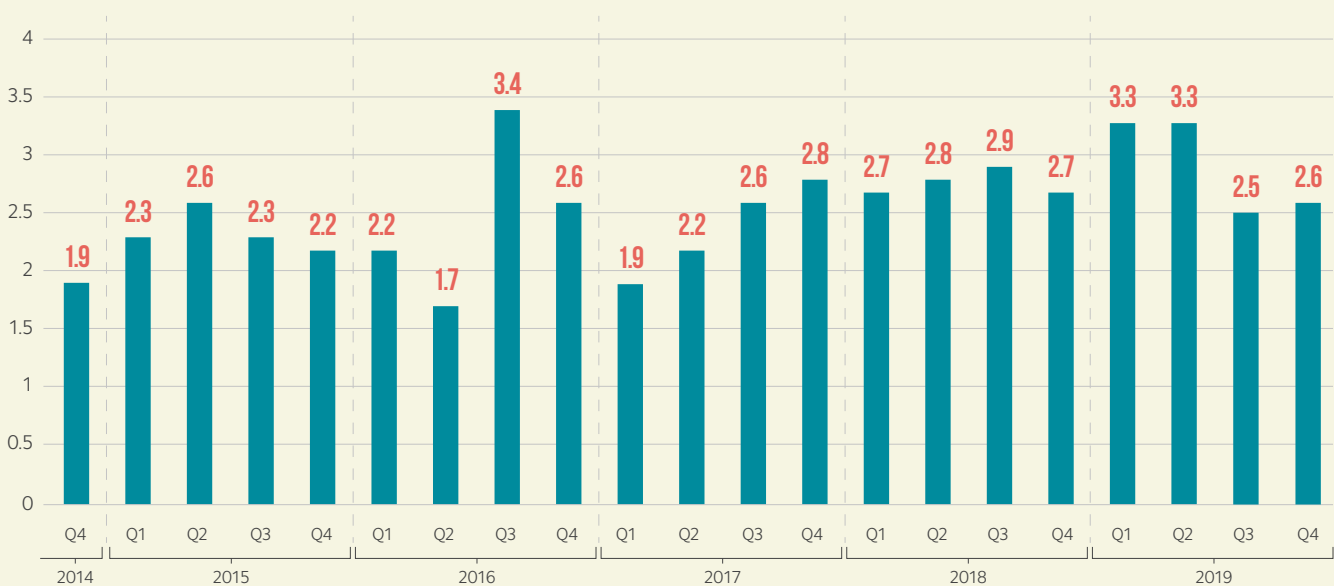
In fact, spare capacity rose slightly from 2.5 to 2.6 weeks in Q4 2019 - from 19.2 per cent to 20 per cent.

This overall fall in business volume is entirely driven by SOC3 associate professional and technical freelancers whose

spare capacity rose from 2.7 to 3.4 weeks since last quarter (from 20.8% to 26.2%).

By contrast, both SOC1 and SOC2 freelancers experienced a rise in business volume with spare capacity falling in each case, but not enough to generate an overall rise in business volume for the entire freelance sector.

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



*The weighted average is based on the relative number of freelancers in the labour market in 2019.



Freelancers' day rates and quarterly earnings

Freelancer day rates declined by three per cent from £447 to £433 since last quarter. This decline is entirely attributable to SOC1 managers, directors and senior officials as both SOC2 and SOC3 freelancers experienced an increase in their day rates.

However, compared to 12 months ago, freelancer day rates have declined across all three freelancer occupational groups. Therefore, 2019 has been a deflationary year for freelancers who are now charging less than they were a year ago.

Freelancers don't expect the situation to improve in 2020. Despite more freelancers expecting their day rates to rise (50%) rather than decline (41%) over the next 12 months, overall they expect a net fall in day rates by 1.1 per cent across 2020.

This is mainly driven by SOC1 and SOC2 freelancers who expect their day rates to decline by 6.6 per cent and 10.8 per cent respectively. SOC3 freelancers are more upbeat, expecting their day rates to rise by 11.8 per cent in 2020.

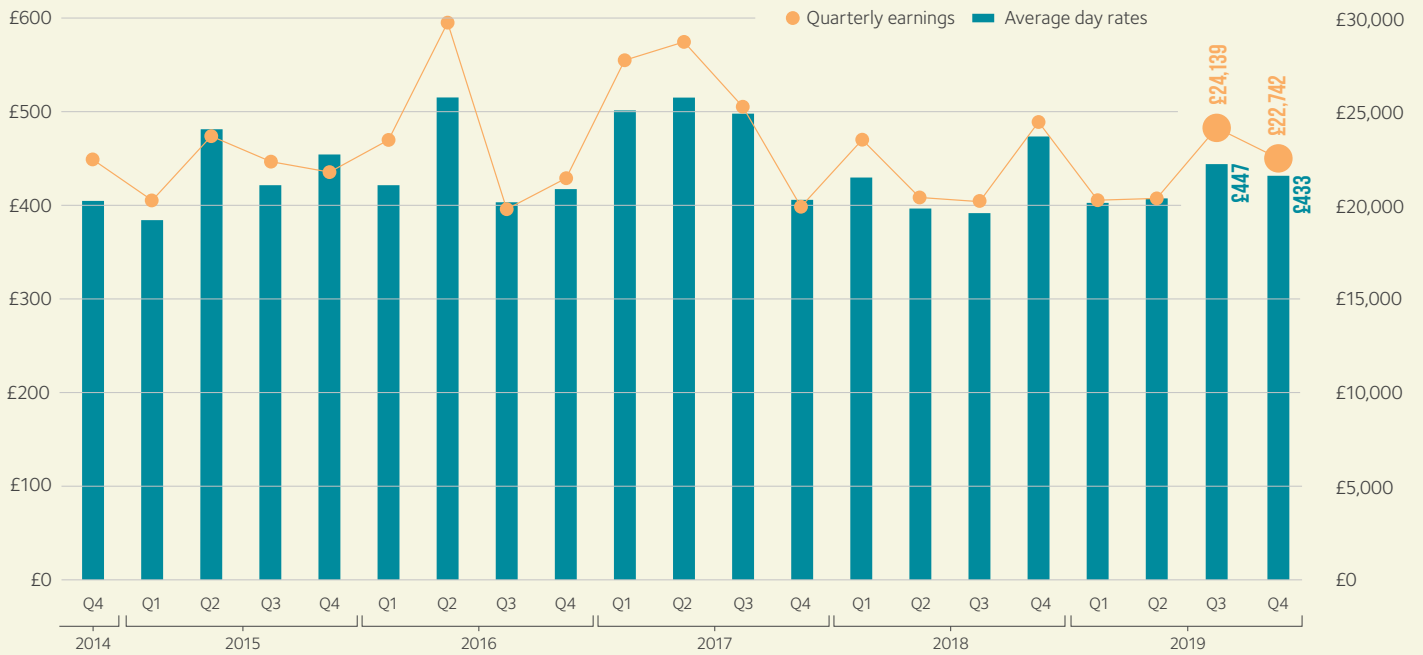
The combination of lower day rates alongside a reduction in the volume of business have contributed to a six per cent fall in quarterly earnings.

In Q4 2019 freelancers' quarterly earnings fell by £1,397 from £24,139 to £22,742. This is a significant fall of eight per cent since the same quarter last year. However, despite this decline in business performance in 2019, freelancers are still earning more than twice the earnings of equivalent employees.

Not all freelancers experienced a fall in quarterly earnings, with SOC2 and SOC3 freelancers achieving a seven per cent and three per cent rise respectively.

Therefore, it is the large 21 per cent fall in SOC1 freelancers' quarterly earnings that gave rise to the overall decline in business performance since last year. However, compared to the same quarter of 2018 all three freelancer occupational groups experienced a fall in their quarterly earnings.

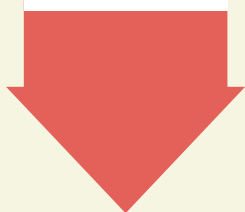
Freelancers' day rates and quarterly earnings



*The weighted average is based on the relative number of freelancers in the labour market in 2019.



1.1%

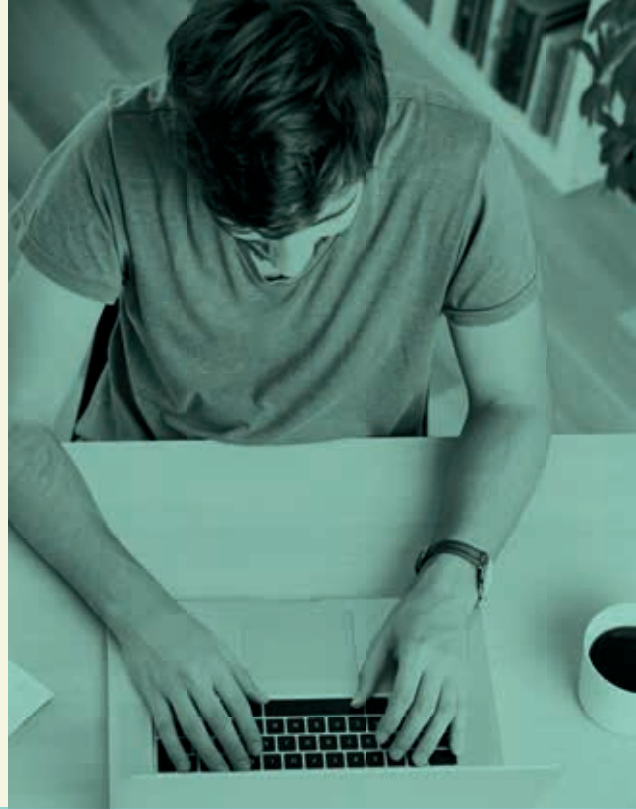
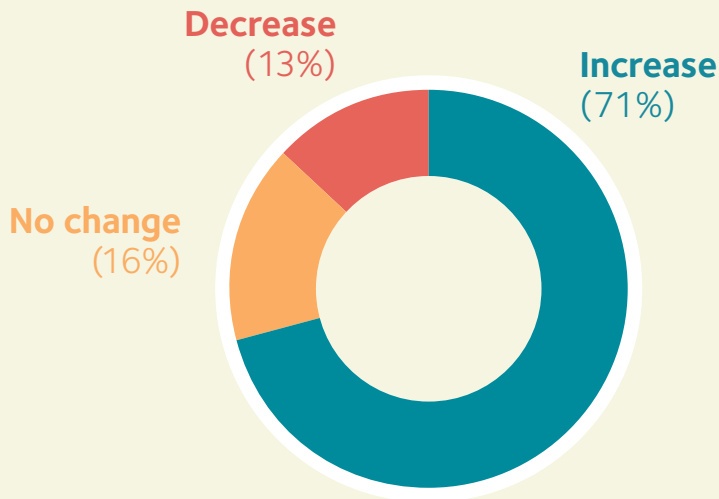


Freelancers expected an average decrease of 1.1% in their day rates over the next 12 months

Freelancers' business costs



Freelancers' input cost change over the next 12 months



Freelancers expect an average **increase of 8.5%** in their business costs in the next 12 months

In terms of input prices to their businesses, freelancers are anticipating significant inflation and a squeeze on their profit margins as a result. A hefty majority of 71 per cent of freelancers expect that input prices will rise over 2020 with just 13 per cent expecting input prices to fall.

This view is fairly uniform across all three occupational groups, with the percentage of freelancers expecting an input price increase being in the range of 68 per cent to 78 per cent.

These translate into an expected input price increase of 8.5 per cent over the next 12 months, which is over 5.7 times the latest available rate of inflation (at the time of writing inflation is 1.5%: ONS, November 2019).

In fact, all three freelancer occupational groups expect input price inflation throughout 2020 to exceed the current rate by multiples in the range 4.3 to 7.5 (or input price inflation from 6.5% to 11.2%).

Summary

The final quarter of 2019 has proven to be a challenging period for the freelance business sector. There has been a decline in quarterly earnings compared to both the previous quarter and the same quarter last year. Day rates have also fallen since last quarter and are lower than they were 12 months ago in Q4 2018. They are also expected to fall further in 2020.

At the same time, input prices are expected to rise by 8.5 per cent over the next 12 months, so freelancers' profit margins are expected to tighten in 2020. This occurs in a business environment where freelancers have serious concerns about the health of the UK economy. Therefore, it is hardly surprising that the latest freelancer confidence index scores indicate that freelancers expect their business performance in 2020 to underperform the levels achieved in 2019. A major factor in this could be the expected changes to IR35.

However, all is not doom and gloom as freelancers' confidence in the economy is slightly higher than last quarter and freelancers continue to earn more than twice the earnings of equivalent employees.

The results of the survey indicate that their future business performance depends very much on whether a new Government can introduce a more conducive fiscal and regulatory environment for freelancers and whether freelancers themselves can continue to derive their business performance through successful business strategies, particularly in the areas of innovation and brand building.



The sample

The quarterly Confidence Index report for Q4 2019 was compiled from 809 IPSE and PeoplePerHour members who replied to an online survey. The survey is conducted every quarter. In Q4 2019, the survey composition of respondents was: 26 per cent female and 70 per cent male, an average age of 45, have been freelancing for an average of 8.8 years and are highly educated—30 per cent have a highest qualification at the postgraduate degree level while 53 per cent have a highest qualification at the undergraduate degree level.



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).

Authors and acknowledgements

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About ipse

IPSE is the largest association of independent professionals in the EU, representing over 74,000 freelancers, contractors and consultants from every sector of the economy. It's a not-for-profit organisation owned and run by its members. We believe that flexibility in the labour market is crucial to Britain's economic success, and dedicate our work to improving the landscape for the freelance way of working through our active and influential voice in Government and industry.

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

About peopleperhour

PeoplePerHour is the UK's leading freelance marketplace. Founded in 2007 the site boasts over 2m users across 150+ countries, and has paid out in excess of £100m to freelancers since. Since its inception PeoplePerHour has become an invaluable resource for small businesses in the UK and outside,

allowing them to hire expert talent as and when needed, 'on-demand' thereby staying lean and flexible while they grow. The company's mission is to empower people worldwide to live their work dream, building their business from the ground up and becoming financially and professionally independent.