Q2 2026

QUARTERLY ECONOMIC REPORT

West & North Yorkshire Chamber of Commerce

IN PARTNERSHIP WITH

West Yorkshire Combined Authority | Tracy Brabin Mayor of West Yorkshire

Victoria Wainwright
Chair
West & North Yorkshire Chamber of Commerce

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INTRODUCTION

Across West and North Yorkshire, businesses continue to demonstrate resilience, navigating a complex and often uncertain landscape with care and determination. There are encouraging signs within domestic markets, particularly among service sector firms, where a return to modest growth points to a stabilising base of demand. This provides a welcome sense of reassurance, even as forward indicators remind us that confidence remains delicate.

However, the contrast with manufacturing is notable. While there are early indications of recovery in current activity, future demand has yet to follow, leaving many firms understandably cautious.

The international picture remains difficult and cannot all be blamed on the Middle East. Weak export performance and subdued order books underline the ongoing impact of global uncertainty, including geopolitical tensions which continue to ripple through supply chains and markets. For now, businesses remain heavily reliant on domestic demand, placing greater emphasis on the strength and stability of the UK economy.

Employment trends also reflect this nuanced picture. Growth in the service sector offers a degree of optimism, with firms still willing to invest in their people despite ongoing pressures. Manufacturing, by contrast, is taking a more measured approach, with hiring constrained by tighter margins and uncertain demand. Taken together, the data suggests a labour market that is gradually evolving alongside wider economic shifts.

Overall, this quarter's results tell a story of quiet resilience. There is progress, but it is measured; there is confidence, but it is cautious. The foundations for growth are present, yet unlocking that growth will depend on strengthening demand, supporting trade and ensuring that businesses have the confidence to invest and plan for the future.

As always, these insights reinforce the importance of a supportive and stable business environment — one that enables firms not only to navigate immediate challenges, but to grow with confidence in the months and years ahead.

Mark Casci
Head of Policy and Representation
West & North Yorkshire Chamber of Commerce

The findings of our latest QES point to an economy that is stabilising, but not yet strengthening. Across the region, businesses are showing resilience in the face of continued uncertainty. Encouragingly, domestic trading conditions have improved, particularly within the service sector, where modest growth signals that underlying demand has held firm. This is an important foundation. However, the lack of momentum in order books tells its own story — one where confidence remains tentative and the outlook uncertain.

Manufacturing continues to face a more challenging path. While there are signs of recovery in current activity, future demand remains weak, reinforcing concerns that any upturn is not yet fully embedded. This divergence between services and manufacturing is a consistent theme in this quarter's results and reflects the structural shifts taking place across our regional economy.

This is the first QES published since the Iran conflict started and it is clear that there is a subdued export performance and weak forward orders, highlighting the extent to which global uncertainty - including ongoing geopolitical tensions - continues to weigh on business confidence. For many firms, growth is increasingly reliant on domestic markets at a time when those markets themselves remain fragile. Even if the Strait of Hormuz opens imminently, it may take months for shipping and energy markets to return to normal.

The labour market reflects this mixed picture. Job creation is being driven primarily by the service sector, while manufacturers remain cautious, constrained by weak demand and tight margins. Investment decisions also reflect this caution. Businesses are continuing to invest, particularly in skills, but are doing so selectively and with a clear focus on managing risk.

Cost pressures remain a central challenge, with inflation overtaking taxation as the main area of concern for the first time in more than a year. Businesses continue to operate within a high-cost environment that is reshaping decision-making across pricing, investment and recruitment. Cashflow pressures, particularly in manufacturing, reinforce the need for continued vigilance.

Nationally, however, we appear in a favourable light. Our appetite for investment, our sales activity and confidence in service sector sales is notably ahead of those seen in the North of England and nationally. One swallow does not a summer make but we could find ourselves driving the economy going forward if conditions improve.

Taken together, this quarter's results point to an economy that is holding its ground rather than accelerating. There are clear signs of resilience, but also clear risks. Sustained growth will require stronger demand, improved export performance and a more stable operating environment for businesses to plan and invest with confidence. As ever, these findings underline the importance of creating the conditions in which businesses can thrive - supporting investment, unlocking trade opportunities and addressing the cost pressures that continue to shape the economic landscape.

David Bharier
Head of Research
British Chambers of Commerce

The continued fall in SME investment sentiment is further evidence of a longer-term pattern that no single shock explains.

Our data shows a risk-aversion cycle taking hold. Firms have not lost ambition, but years of compounding cost pressures and geopolitical shocks have produced defensive behaviour for the average SME.

Most firms are now experiencing policy as downside risk rather than opportunity – with the rise in employer NICs a prominent example, still being felt almost two years on. Reducing the cost and complexity of the administrative burden would give many firms the space to grow.

But more broadly, government policy needs to pass a 'growth delivery test'. Each proposal should start from the question of exactly how it will cause firms to increase investment, exports, hiring, or expansion. Until that test is being applied, our survey is likely to show the same pattern quarter after quarter.

The challenge for the new Prime Minister and his team is clear.

METHODOLOGY
The respondents of business owner/senior manager/director/partner status. Twenty-six per cent of this sample were actively trading internationally, a smaller figure than seen in the Quarter One 2026 study.

Of those businesses surveyed 41 per cent were micro, 38 per cent were small, 17 per cent were medium and four per cent were large.

Businesses were surveyed by telephone, physical and online questionnaires and by social media polling between Monday May 11 and Sunday May 29.

Net balance figures referred to throughout this report and represented in the graphs are determined by subtracting the percentage of companies reporting decreases in a factor from the percentage of companies reporting increases.

The Chambers that conducted the survey are:

- West and North Yorkshire Chamber of Commerce (which covers Bradford. Leeds, City of York and all of the North Yorkshire Districts, Wakefield, Calderdale and Kirklees).

BUSINESS SIZE CLASSIFICATION
Throughout the document we refer to the European standard definition of company size as follows

0 – 9 *employees*	**Micro business**
10 – 49 *employees*	**Small business**
50 – 249 *employees*	**Medium business**
250+ *employees*	**Large business**

DOMESTIC SALES
An encouraging picture with both sectors having picked up in terms of the UK sales performance. The service sector improved to positive territory, albeit with quite modest growth. Manufacturing was also positive, recovering from previous negative performances. Orders were looking positive too, suggesting a stabilisation in demand. For manufacturing however, there is still a long way to go to reverse a sharp period of decline.

EXPORT SALES
Yorkshire's export markets remain weak, particularly for manufacturing. The service sector remains flat with limited growth while manufacturing witnessed a decline overseas sales. Order books were also looking poor across both sectors.

EMPLOYMENT
The negative trends seen in the labour markets is showing tentative signs of improvement. The last quarter continued to show flat demand for taking on new staff, mirroring previous quarters. However, the next quarter is looking more positive for those seeking new roles. The service sector shows an uptick in hiring intent while manufacturers remain more cautious.

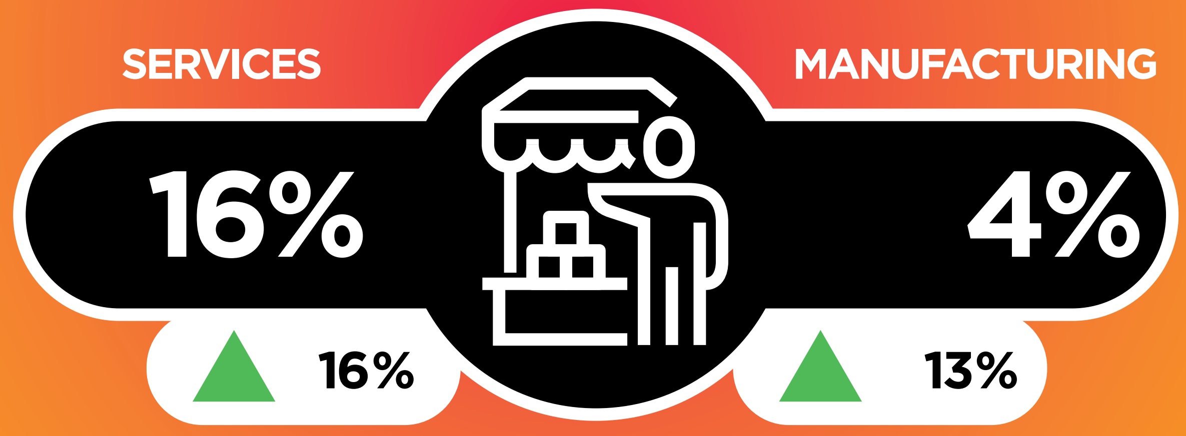
INVESTMENT
Investment plans are oscillating between cautious to resilient. On capital investment there was modest growth for the service sector with manufacturers also showing an uptick. Training investment seems to be an ongoing commitment for both sectors, particularly among service sector employers.

BUSINESS CONFIDENCE
There is a clear dividing line between the two sectors, with service sector employers showing a strong improvement on expected profits, while manufacturers continue to showcase signs of being under pressure. On turnover. Service firms are driving overall growth whilst manufacturing remains subdued.

COSTS AND CONCERNS
For the first time in more than a year inflation has overtaken taxation as the chief cost pressure facing businesses. Cost pressures are increasingly becoming broad based across multiple factors as the disruption from the war in Iran continues to impact energy costs. Raw materials, labour costs, energy and transport are all areas for concern.


CURRENT QUARTER
PREVIOUS QUARTER
Q2 26
U K SALES
16%
SERVICES
U K SALES
4%
MANUFACTURING
OVERSEAS SALES
0%
SERVICES
OVERSEAS SALES
-8%
MANUFACTURING
CONFIDENCE - PROFITS
27%
SERVICES
CONFIDENCE - PROFITS
-12%
MANUFACTURING
WORKFORCE NEXT QUARTER
21%
SERVICES
WORKFORCE NEXT QUARTER
0%
MANUFACTURING
INVESTMENT - CAPITAL
12%
SERVICES
INVESTMENT - CAPITAL
4%
MANUFACTURING
INVESTMENT - TRAINING
27%
SERVICES
INVESTMENT - TRAINING
12%
MANUFACTURING

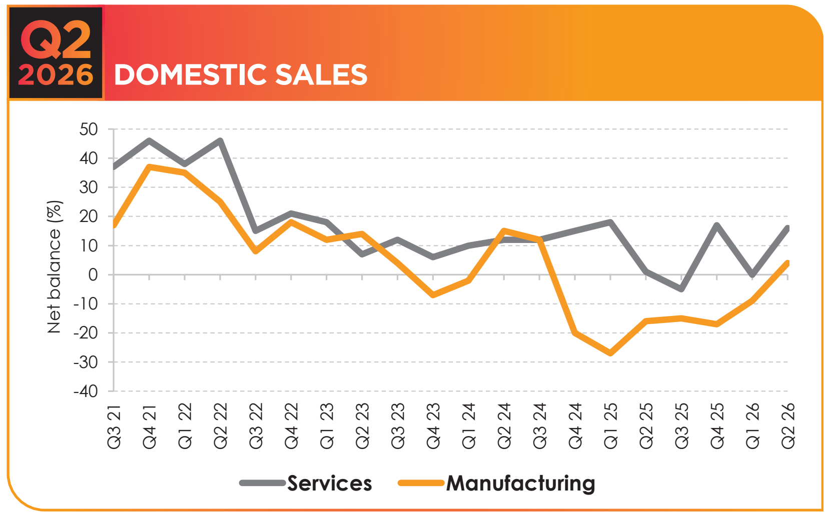
UK SALES

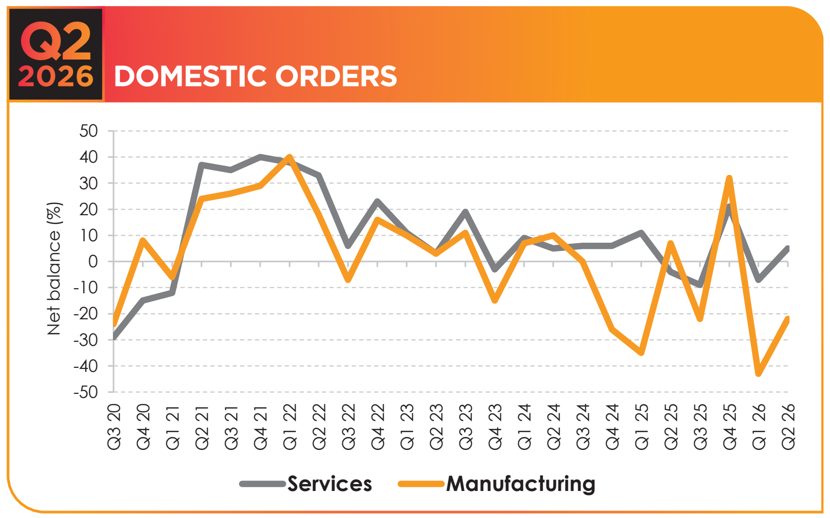


UK SALES
Domestic trading conditions show tentative signs of recovery, although the picture remains uneven across sectors.

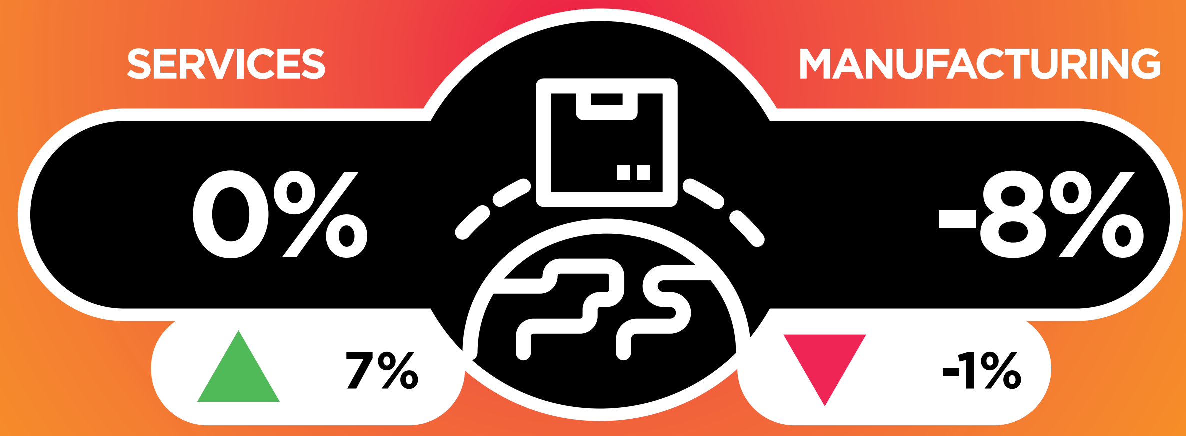
Service sector firms reported a return to modest growth in domestic sales, recovering from a flat position in the previous quarter. This suggests that underlying demand in the local economy has stabilised, with firms continuing to find opportunities in UK markets despite ongoing cost pressures. However, this improvement in sales is not yet fully reflected in forward-looking indicators, with domestic orders only marginally positive, indicating that momentum remains fragile.

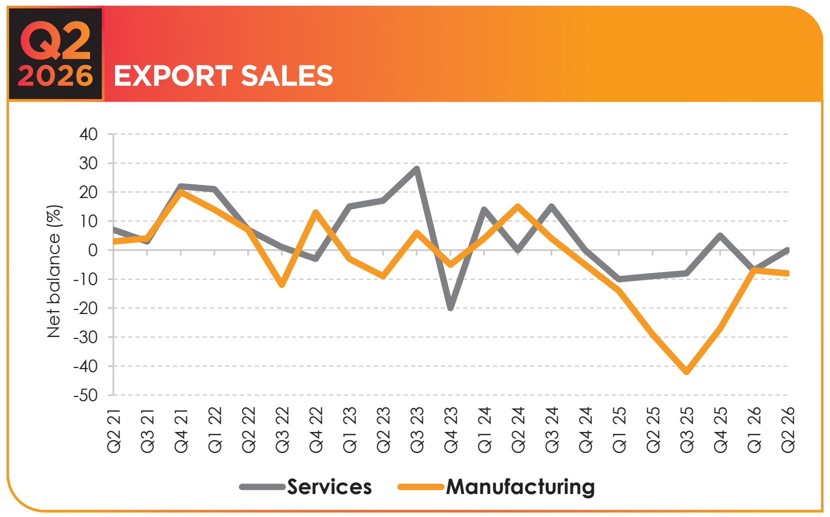
In contrast, manufacturing firms are showing a mixed recovery. While domestic sales have returned to positive territory, signalling an improvement on recent quarters, order books remain firmly negative. This highlights a key challenge for the sector: although firms are seeing some uplift in current activity, future demand remains weak, suggesting that the recovery is not yet firmly embedded. Overall, the domestic picture is one of short-term stabilisation rather than sustained growth, with a clear risk that weak order pipelines could limit progress in the coming quarters.

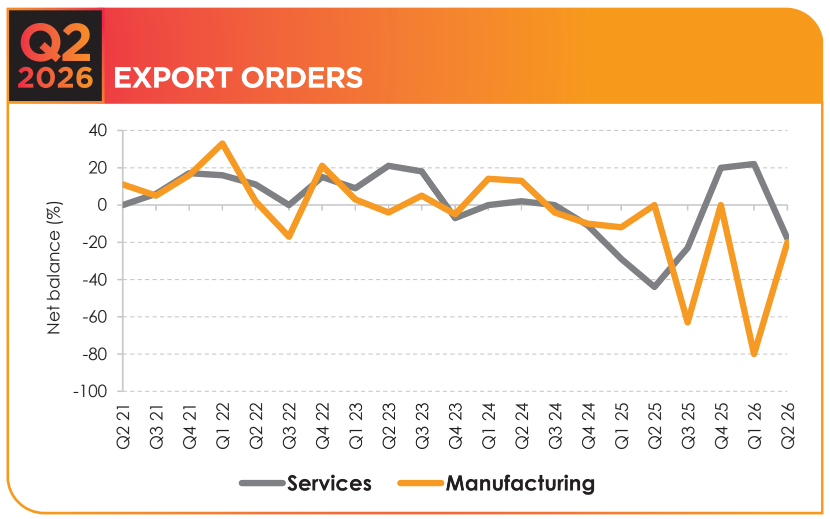




OVERSEAS SALES







INTERNATIONAL SALES
International trade continues to be a significant weak point for the regional economy, a state of play no doubt exacerbated by the conflict in the Middle East. Export sales remain subdued across both sectors. Service sector exports are effectively flat, indicating no meaningful growth in overseas markets, while manufacturing export sales remain in negative territory, pointing to continued contraction in international demand.

More concerning is the outlook for future trade. Export orders are negative across both services and manufacturing, suggesting that firms are not anticipating an improvement in overseas demand in the near term. This aligns with ongoing global uncertainty and subdued international market conditions. Taken together, the data indicates that external demand is failing to support growth, leaving firms increasingly reliant on domestic markets. Without a strengthening in export performance, the region's ability to achieve sustained growth remains constrained. Even if the Straits of Hormuz were to reopen tomorrow, the impact will continue to be felt for several months.

EMPLOYMENT (NEXT QUARTER)

SERVICES

21%

▲ 14%

MANUFACTURING

0%

▲ 10%

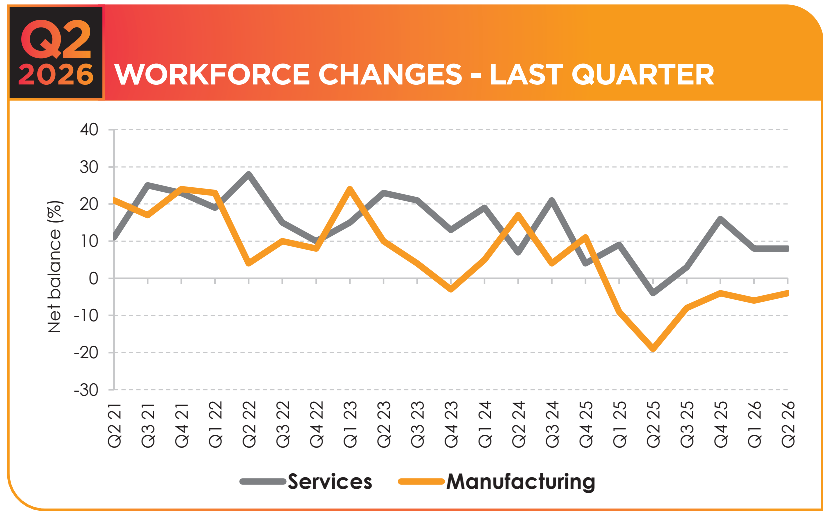
EMPLOYMENT

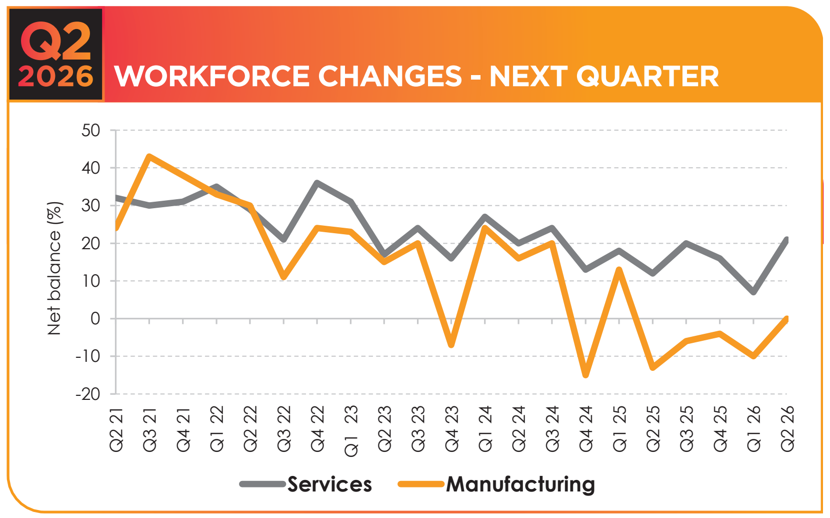
The labour market presents a divergent and cautious picture, reflecting wider economic uncertainty.

Service sector firms reported a modest increase in employment levels, with further growth expected in the next quarter. This indicates that, despite ongoing cost pressures, many service firms remain confident enough to expand their workforce, albeit cautiously.

Manufacturing, however, continues to lag behind. Employment levels in the sector have declined, and hiring intentions for the next quarter are flat, suggesting little appetite for recruitment. This reflects ongoing pressures on margins, weak order books, and continued uncertainty over future demand.

Overall, the data points to a labour market where job creation is concentrated in services, while manufacturing firms remain more defensive, albeit with improving numbers. The broader implication is a continued shift in the regional economy towards service-led growth.





INVESTMENT (CAPITAL)

SERVICES

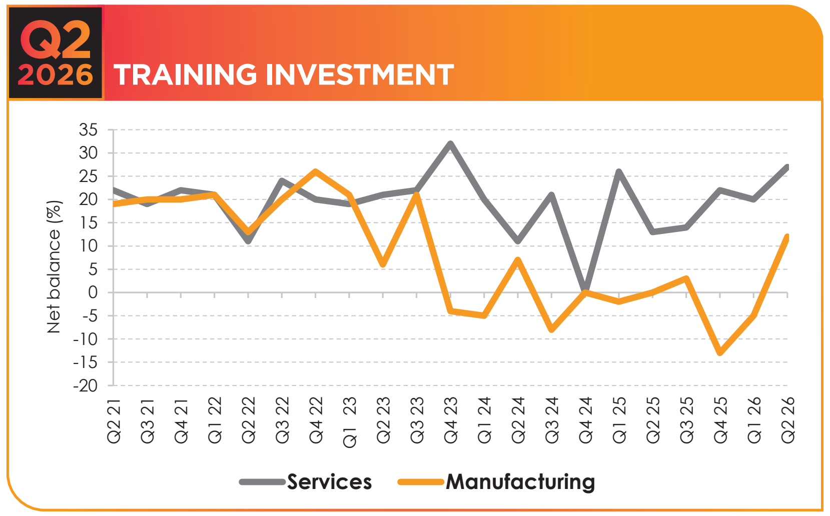
12%

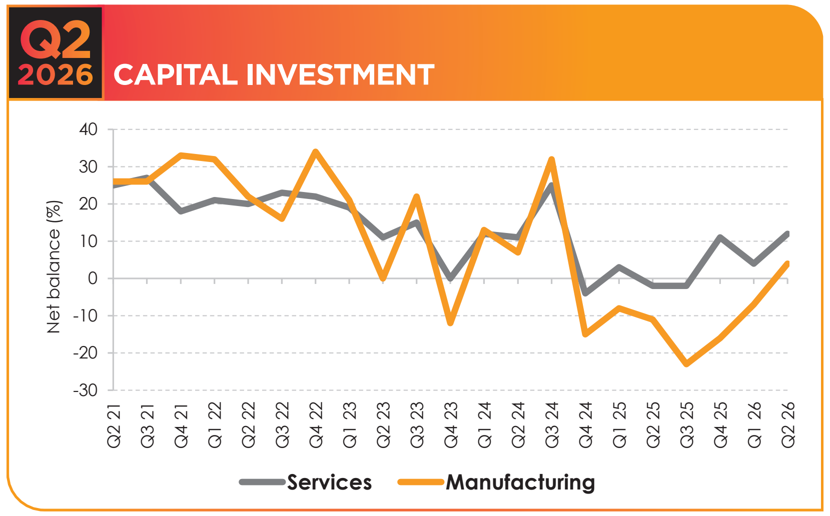
▲ 8%

MANUFACTURING

4%

▲ 11%





INVESTMENT

Business investment remains subdued with firms adopting a cautious and selective approach.

Capital investment is positive in both sectors, though at relatively low levels. This suggests that, while firms continue to invest, they are doing so carefully, prioritising essential expenditure and deferring larger projects in the face of uncertainty.

Encouragingly, investment in training remains more resilient, particularly in the service sector. This reflects a continued recognition among businesses of the importance of skills development, even in a challenging economic environment. Manufacturing firms are also investing in training, though to a lesser extent, indicating a more constrained approach.

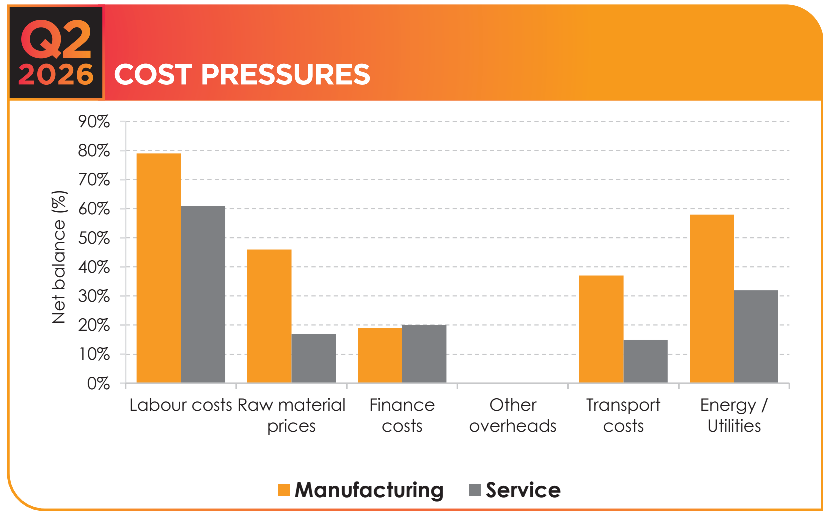
Overall, the investment picture is one of measured confidence, with firms balancing the need to invest for the future against the pressures of the current operating environment.

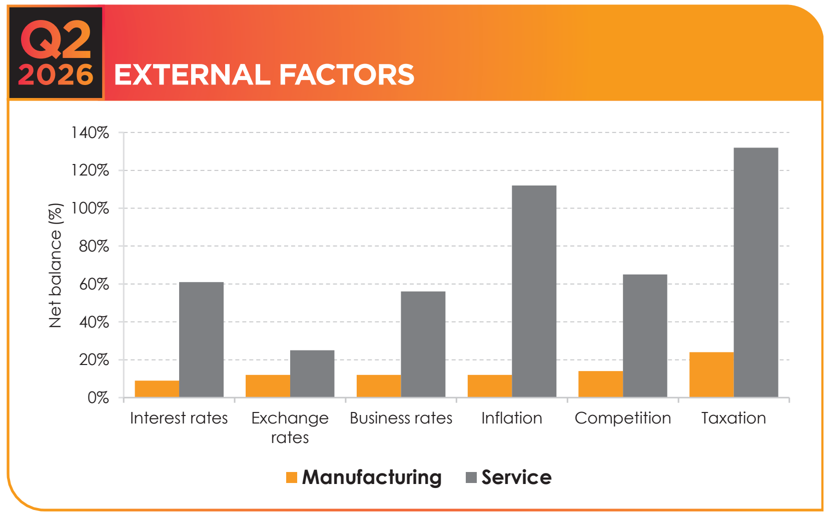
CAPACITY (FULL)

SERVICES	MANUFACTURING
49%	36%
▲ 6%	▲ 13%

CAPACITY & COST PRESSURES
For the first time in more than a year inflation has overtaken taxation as the chief cost pressure facing businesses.

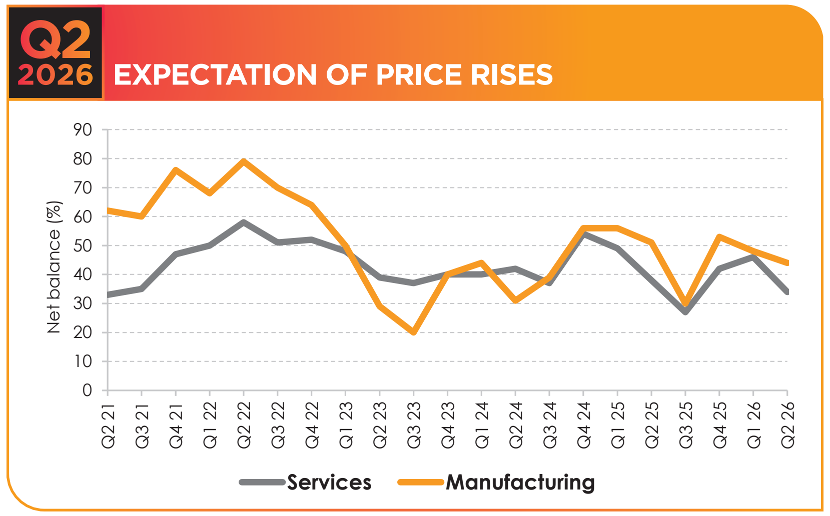
Cost pressures remain a central concern for businesses, although there are signs that the intensity may be easing slightly.





PRICES

SERVICES	MANUFACTURING
34%	44%
▼ -12%	▼ -4%



PRICES
Price indicators remain elevated, particularly in manufacturing, where firms continue to report higher levels of price increases. Service sector price pressures, while still high, have moderated slightly, suggesting some easing compared to previous peaks.

Businesses continue to face a broad range of cost pressures, rather than a single dominant factor. External pressures such as inflation, taxation and competition remain significant, while internal pressures including labour costs, raw materials, energy and transport continue to weigh heavily on firms.

The persistence of these pressures indicates that, although inflation may be volatile, the cost base for businesses remains structurally elevated, continuing to impact pricing decisions, investment plans and profitability.

CASHFLOW

SERVICES 0% ▲ 14%

MANUFACTURING -16% ▲ 3%

CONFIDENCE (PROFITABILITY)

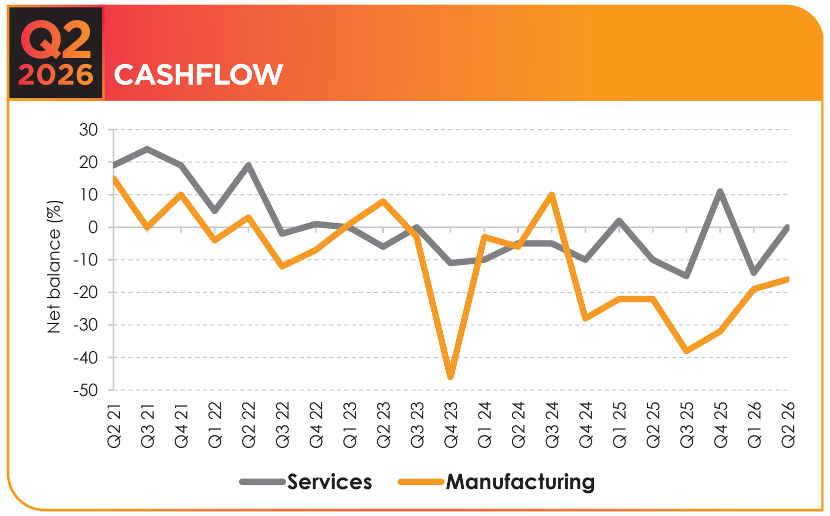
SERVICES 27% ▲ 22%

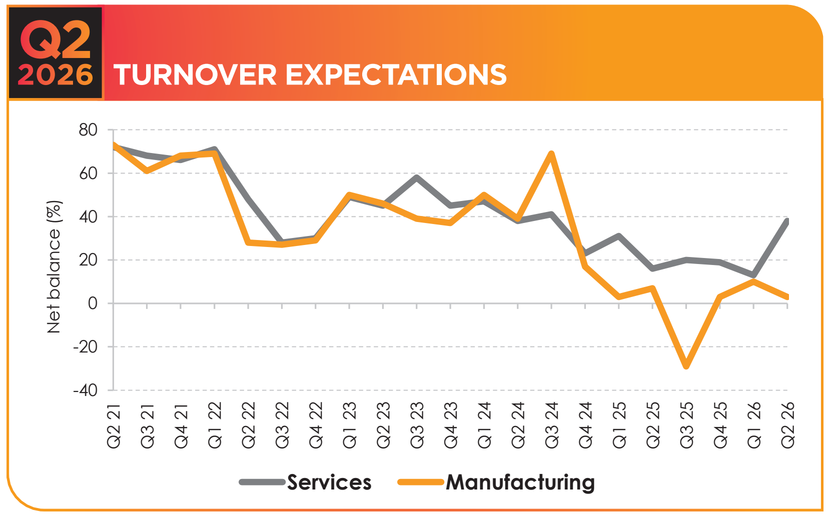
MANUFACTURING -12% ▼ -10%

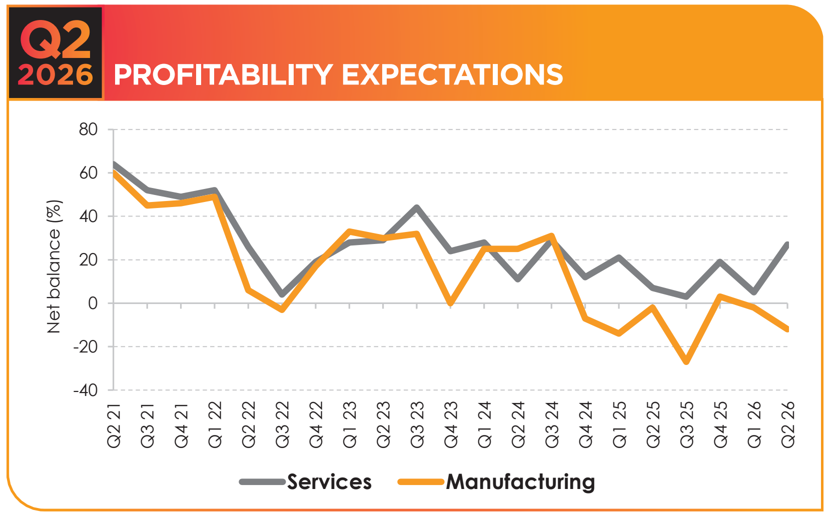
CASHFLOW
Cashflow conditions remain challenging, particularly for manufacturers.

Service sector firms report a neutral position, suggesting that cashflow balances are stabilising but not improving significantly. In contrast, manufacturing firms continue to report negative cashflow, highlighting ongoing liquidity pressures within the sector.

This divergence reflects wider trends in demand and profitability, with manufacturing firms facing a more challenging operating environment. Weak cashflow is likely to act as a constraint on investment and hiring, particularly for firms already facing tight margins.







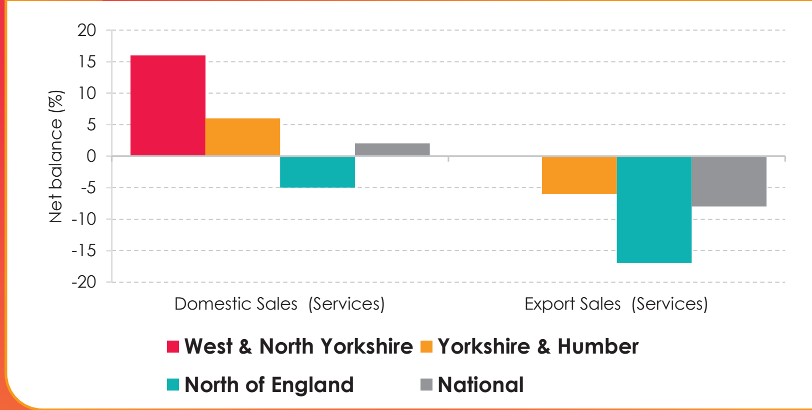
BUSINESS CONFIDENCE
Confidence remains fragile and uneven, with a clear divide between sectors.

Service sector firms have reported a strong improvement in profitability, suggesting that recent revenue growth is beginning to offset cost pressures. This has supported a more positive outlook among service businesses, particularly in relation to hiring and investment.

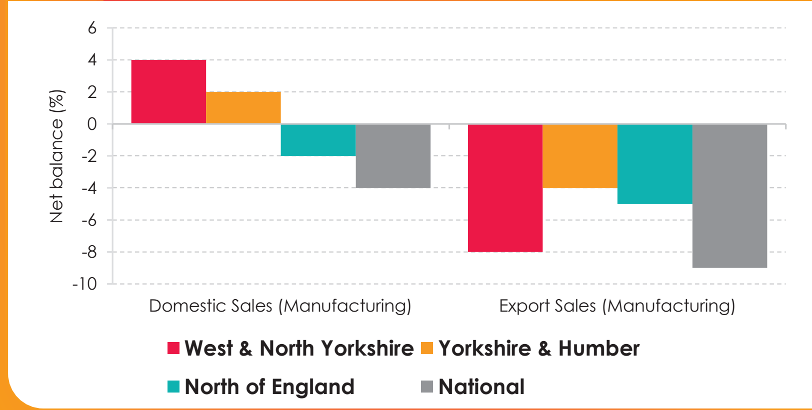
Manufacturing firms, however, continue to report declining profitability, reflecting the combined impact of weak demand, high costs and ongoing operational pressures. As a result, confidence in the sector remains subdued.

Taken together, the findings suggest that overall business confidence is being held up by the service sector, while manufacturing continues to act as a drag on regional sentiment.

Q2 2026 REGIONAL COMPARISON - SERVICES



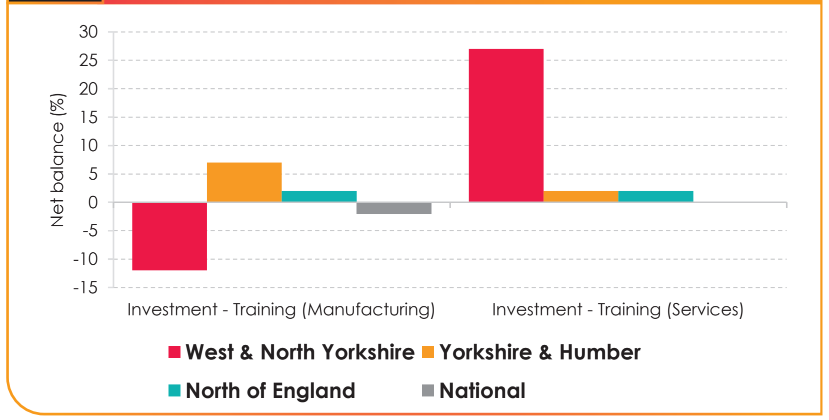
Q2 2026 REGIONAL COMPARISON - MANUFACTURING



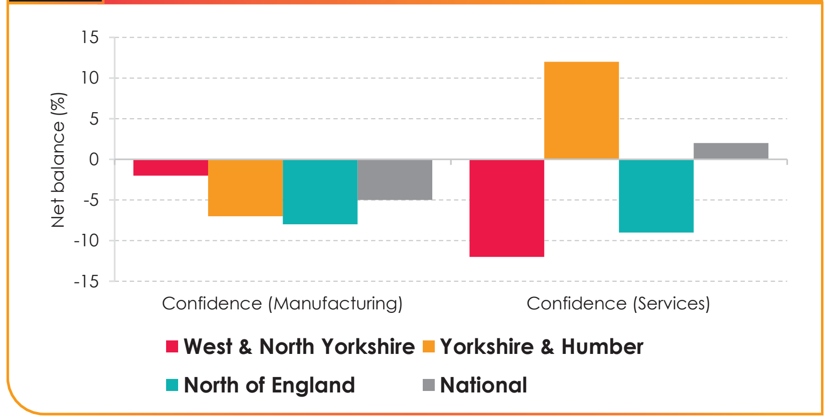
NATIONAL AND REGIONAL COMPARISONS

While conditions remain challenging it is, of course heartening to see us significantly outperforming the rest of the country on a number of indices, most notably service sector sales, appetite for investment and on confidence levels. While we cannot take anything for granted these numbers are encouraging for Yorkshire's resiliency and capacity to drive growth. With more favourable conditions, the region could be the driver of the UK getting back to growth. Policy makers should ensure all decisions empower all regions, including our own, and we cannot allow for any retrograde measures on business.

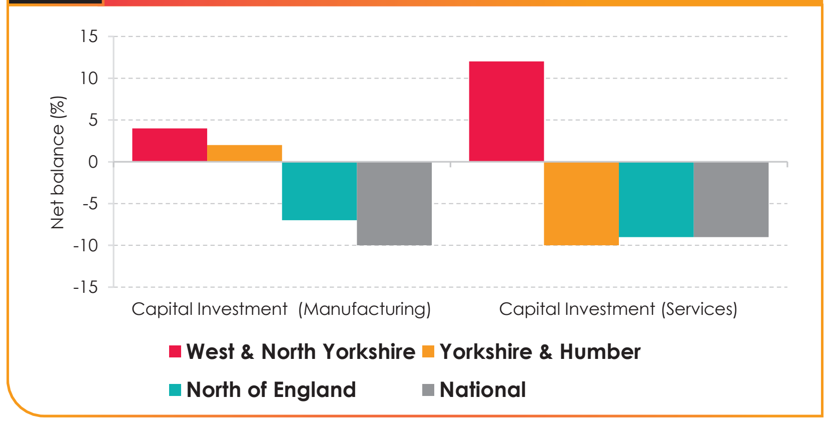
Q2 2026 REGIONAL INVESTMENT TRAINING



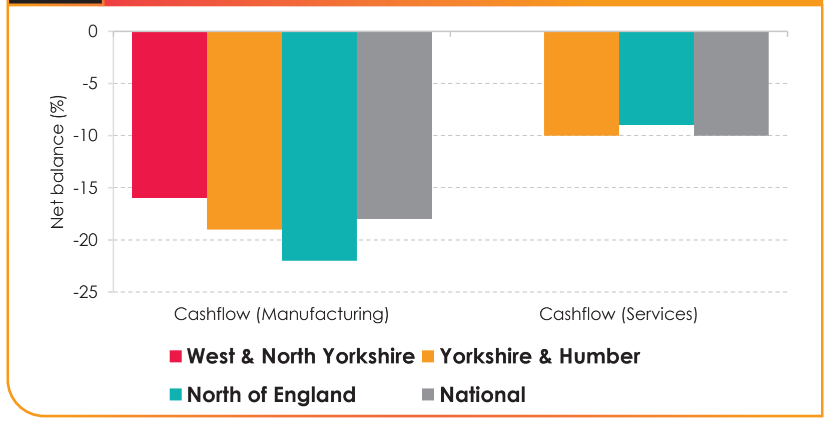
Q2 2026 REGIONAL BUSINESS CONFIDENCE - PROFITS



Q2 2026 REGIONAL INVESTMENT CAPITAL



Q2 2026 REGIONAL CASHFLOW



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West & North Yorkshire Chamber of Commerce

IN PARTNERSHIP WITH

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