



2026

QUARTERLY ECONOMIC REPORT



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The latest Quarterly Economic Survey offers some welcome signs that business confidence and demand are moving in the right direction across West and North Yorkshire. After an extended period in which many firms have faced persistent economic uncertainty, the Q3 results suggest that businesses are beginning to see opportunities for growth emerge once again.

One of the most encouraging findings from this quarter is the strength of international order books. Improvements in UK sales, export sales and, most significantly, future orders suggest that businesses are beginning to experience a stronger pipeline of work than we have seen for some time. For many firms, this will be a welcome indication that customer demand is returning after a prolonged period of caution.

The service sector continues to demonstrate remarkable resilience, with strong improvements in confidence, investment and recruitment intentions. Businesses across professional services, retail, digital and other service industries are reporting growing optimism about future trading conditions. Increased capital and training investment also indicates a willingness among many firms to invest in future growth and productivity.

Manufacturing businesses have also reported some notable improvements, particularly in sales and order books. The sharp turnaround in export and domestic orders is especially encouraging

and demonstrates the strength and adaptability of our manufacturing base. However, the survey also highlights the challenges that remain. Investment intentions have weakened, profitability remains under pressure, and many manufacturers continue to adopt a cautious approach towards recruitment despite stronger demand indicators.

It is also clear that cost pressures remain a concern. Businesses continue to cite taxation, competition, inflation and a range of operational costs as factors affecting decision-making. While some firms are benefiting from stronger demand, many continue to face difficult decisions around investment, pricing and workforce planning. The persistence of these pressures serves as a reminder that the recovery remains finely balanced.

This quarter's findings give us reason for cautious optimism. Businesses are reporting stronger demand, improving confidence and a more positive outlook than earlier in the year. The challenge now is to build upon these foundations by creating the conditions that will encourage investment, support productivity and enable businesses of all sizes to thrive.



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

The latest Quarterly Economic Survey paints a more encouraging picture of business conditions across West and North Yorkshire than we have seen for some time.

For much of the past two years, businesses have been navigating a difficult combination of weak demand, rising costs and economic uncertainty. While those challenges have not disappeared, the Q3 results suggest that firms are beginning to find firmer ground. In particular, international sales improved during the quarter, with particularly strong growth in order books across services and manufacturing. The sharp rise in both UK and export orders provides one of the strongest indicators yet that demand may be starting to recover. This follows several quarters in which international trade acted as a constraint on growth. Whether this proves to be the start of a more sustained recovery remains to be seen, but businesses will welcome signs that international demand is strengthening.

The service sector continues to be the main driver of growth across the region. Rising confidence, increased investment and positive hiring intentions all point towards a sector becoming more optimistic about the future. In contrast, manufacturers remain more cautious. While we have seen welcome improvements in domestic and export performance, concerns around profitability, investment and future employment highlight the ongoing pressures facing many industrial businesses.

There are, however, reasons to remain cautious. Cost pressures remain elevated and continue to impact business decision-making. Competition, taxation, labour costs, raw material prices and energy costs all feature prominently among the concerns raised by respondents. While inflationary pressures may have eased in some areas, many firms continue to operate in an environment where margins remain under significant strain.

The labour market also presents a mixed picture. Service sector businesses are continuing to recruit and expect further workforce growth in the months ahead. Manufacturing employment, however, remains subdued, demonstrating that stronger sales do not always translate immediately into greater confidence to invest in people.

As always, the Quarterly Economic Survey provides a valuable snapshot of business sentiment and economic conditions across West and North Yorkshire. The findings help shape the Chamber's policy work and ensure that the experiences of local businesses continue to influence decision-makers at local, regional and national level. What we now need to see is a Autumn Budget that unleashes the potential of our region's business community and begins to alleviate some of the significant pressures they face to their bottom lines.



David Bharier
Head of Research
British Chambers of Commerce

The QES points to an economy stuck in low gear. Most firms are reporting no improvement across almost every indicator we track.

It's a positive that the decline of the preceding quarters hasn't continued, and turnover confidence has seen a slight bounce. But the underlying trend still points to flatlining, with just 17% of firms increasing their investment, a post-pandemic low.

There is also a big imbalance beneath the headline. Larger firms are driving any improvements to indicators, while the smallest businesses have seen sales and cash flow fall further. Hospitality remains the sector under the most pressure.

Firms are being held back by two constraints. Global volatility is driving up prices and pushing firms to defer investment decisions, while the underlying cost base continues to rise, particularly around employment. Our cost stack calculator shows domestic policy-driven costs alone have risen by more than 70% in the past decade for a typical SME.

As the Chancellor finalises the Budget, every major measure should be put through our Growth Delivery Test: what will it get firms to do that they aren't doing now?"

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 46 per cent were micro, 26 per cent were small, 23 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 August 17 and Friday September 4.

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

A mixed bag with both sectors having diverged in terms of sales growth. Manufacturers continued their impressive growth trajectory with a fourth consecutive quarter of sales increasing while the service sectors strong performance so far in 2026 having slipped slightly.

Both sectors should be looking to a healthy final quarter of the year with order books for both manufacturers and services sector firms surging.

EXPORT SALES

Following a weak second quarter, both sectors posted a strong improvement in their overseas sales performance. Manufacturers ended several quarters of decline while the service sector kept its strong recent performance going. Export orders also looking very healthy with big improvements across both sectors.

INVESTMENT

Capital investment intentions have become increasingly divided between the two sectors. Service firms reported a substantial improvement in investment plans, reaching their strongest level for nearly two years. Manufacturers, however, moved back into negative territory, suggesting continuing caution despite signs of improving demand. Overall, business investment remains positive but is being driven largely by the service economy.

Training investment remains positive across both sectors. Service-sector firms increased training expenditure further during Q3 and remain strongly focused on skills development. Manufacturers also continued to invest in training, although at a much lower level than services and with less momentum than the previous quarter.

EMPLOYMENT

Q3 of 2026 saw an much improved performance across both sectors with hiring intent having improved after months of being flat. Going forward service sector firms remain bullish about the plans to recruit while manufacturers slipped backwards, possibly driven by increasing overheads.

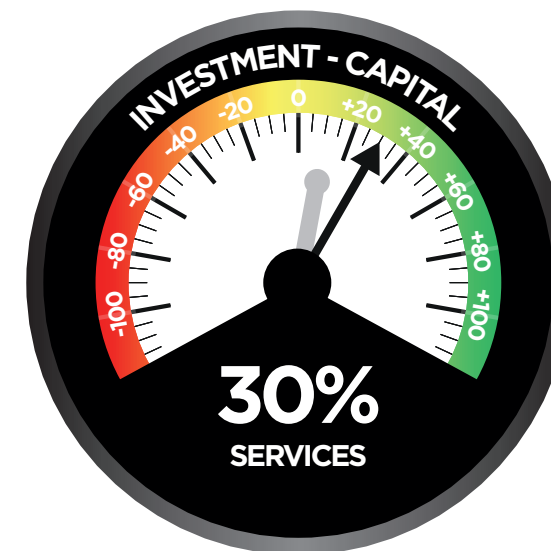
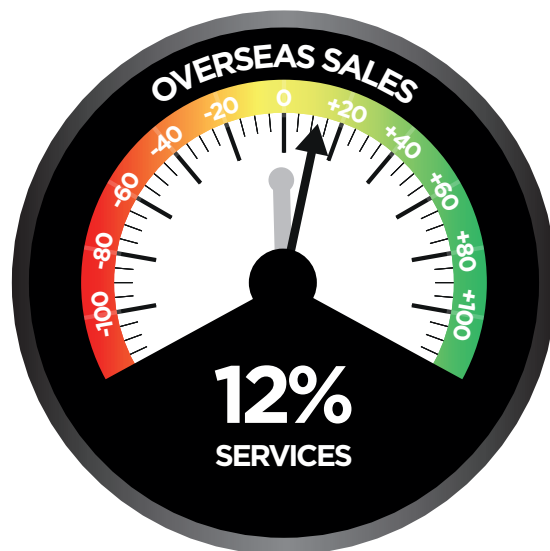
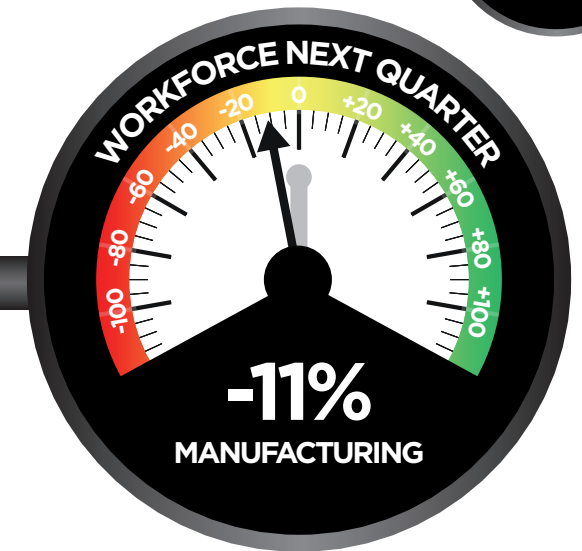
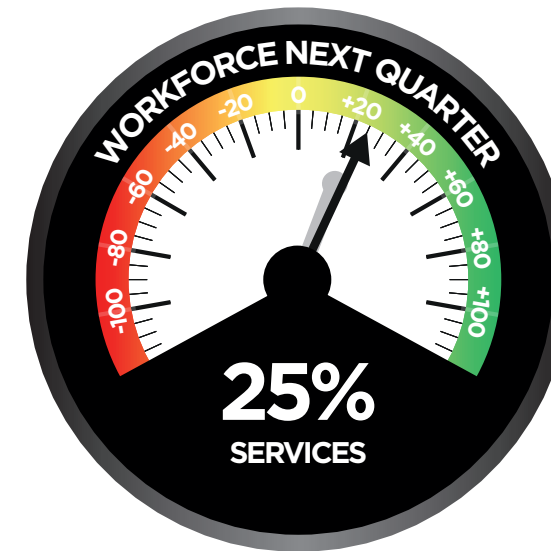
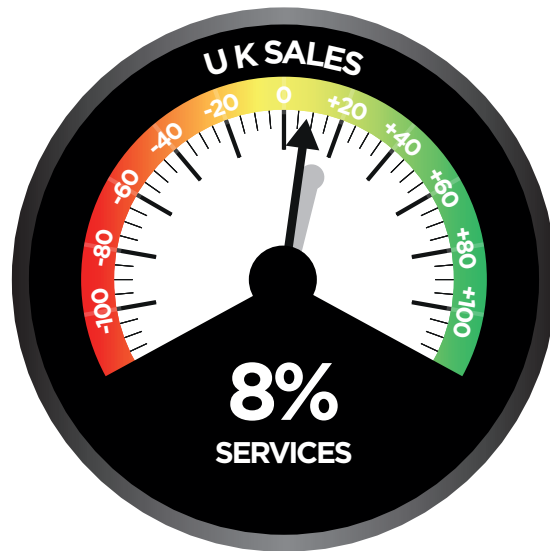
BUSINESS CONFIDENCE

Expectations around future turnover strengthened during Q3. Service firms reported a strong improvement in confidence, supported by robust sales and order growth. Manufacturers also became more optimistic, although confidence remains considerably lower than in the service sector. Overall, firms are looking ahead with greater confidence than earlier in the year.

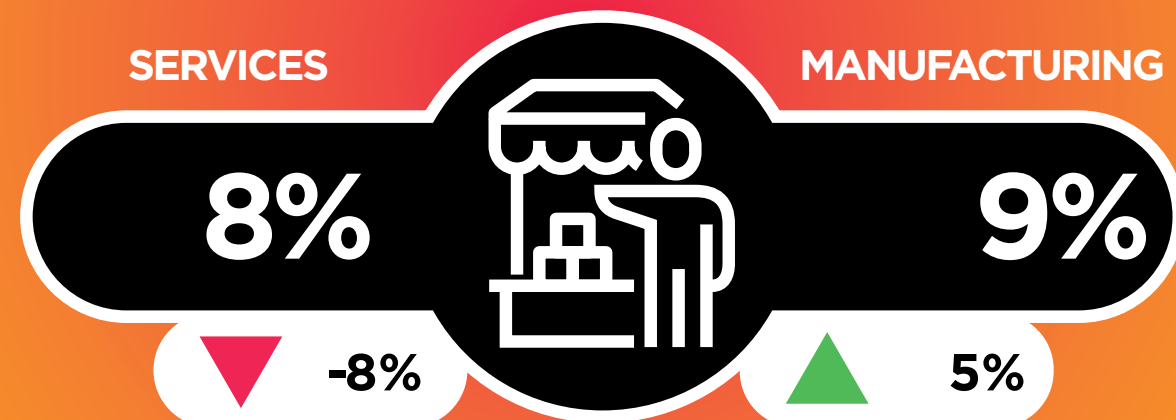
Profitability expectations also improved during Q3, with service firms reporting a further increase in confidence as stronger demand begins to offset cost pressures. Manufacturers also recovered from the negative position recorded in Q2, but confidence remains flat overall. The result is a widening confidence gap, with service businesses continuing to underpin regional business sentiment.

COSTS AND CONCERNS

Cost pressures remain widespread in the region. Manufacturers continue to face significant challenges from raw material, energy and transport costs, while service firms remain most affected by labour costs and taxation. Competition, taxation and rising inflation are among the leading external concerns facing businesses. Although demand conditions have improved, cost pressures remain elevated and continue to weigh on profitability, particularly in manufacturing.



UK SALES



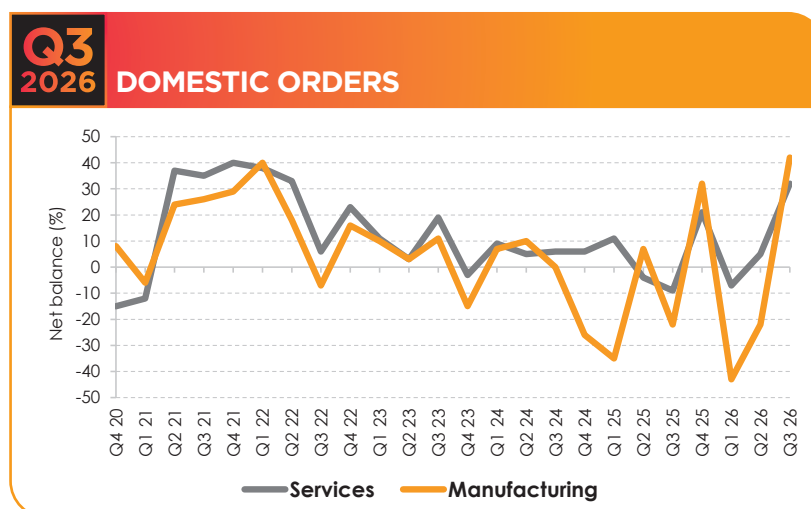
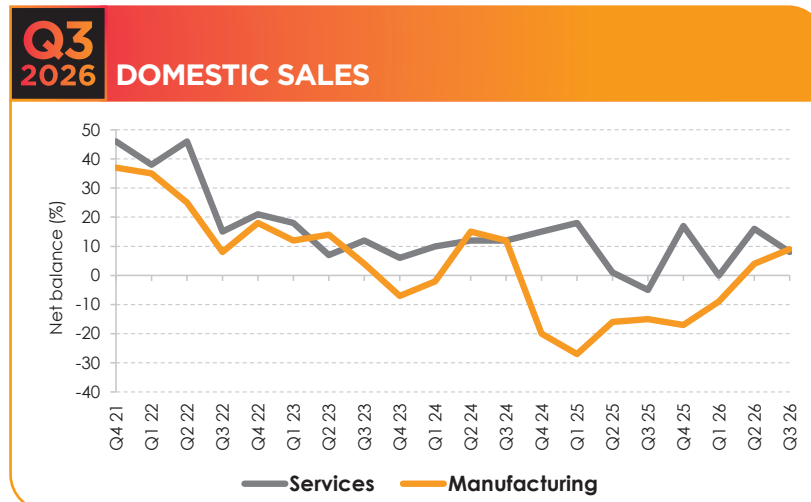
UK SALES

Domestic trading conditions diverged during Q3. Manufacturers recorded a particularly encouraging improvement compared with earlier quarters.

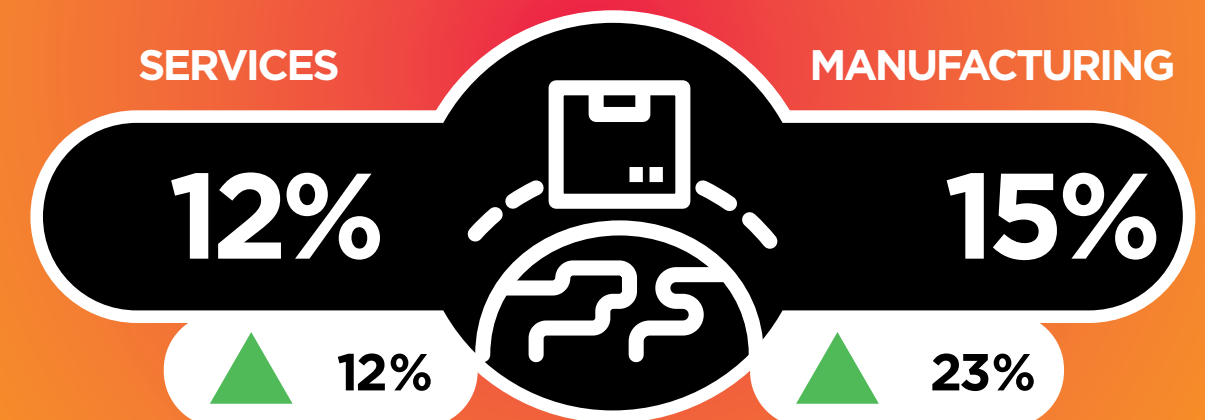
For service businesses, domestic sales remained in positive territory, albeit down slightly on Q2's figures, although the most notable development was the sharp increase in domestic orders. Order books rose from a modest balance in Q2 to one of the strongest readings seen in recent years, suggesting that firms are seeing a growing pipeline of future work and increased customer demand.

Manufacturers also reported positive domestic sales growth, but the standout result was the dramatic turnaround in orders. After recording a negative balance in Q2, manufacturing order books surged into strongly positive territory during Q3. This suggests that domestic demand is beginning to provide meaningful support for the sector after a prolonged period of weakness. [

Stronger sales and, more importantly, substantially improved order books indicate that businesses across both sectors are entering the final quarter of the year with greater confidence than at any point earlier in 2026.



OVERSEAS SALES



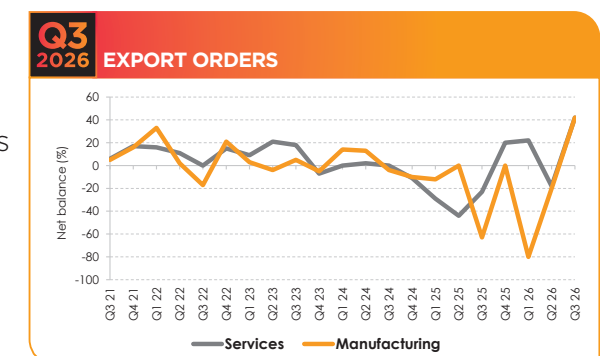
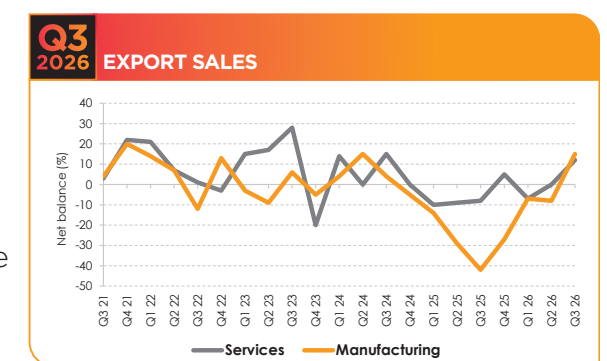
INTERNATIONAL SALES

International trade delivered one of the most encouraging results in the Q3 survey, with both export sales and export orders showing a significant improvement across services and manufacturing. After a prolonged period of weak overseas demand, businesses are reporting a much stronger outlook for international markets, something that will surprise many given the ongoing disruption with the Straits of Hormuz.

Service sector firms recorded a positive export sales balance of +12, up from a flat position in Q2. More importantly, export order books surged from -18 to +42, indicating a substantial strengthening in future overseas demand. This suggests that service businesses are beginning to secure new opportunities in international markets after a challenging start to the year.

Manufacturers also reported a notable turnaround. Export sales improved from -8 in Q2 to +15 in Q3, returning comfortably to positive territory. Export orders showed an even stronger recovery, rising from -20 to +42, representing one of the strongest quarter-on-quarter improvements recorded anywhere in the survey.

Taken together, the results suggest that overseas markets are no longer acting as a drag on business performance. While global economic uncertainty remains, the sharp improvement in export order books across both sectors points towards a much more positive outlook for international trade heading into the final quarter of the year.



EMPLOYMENT (NEXT QUARTER)



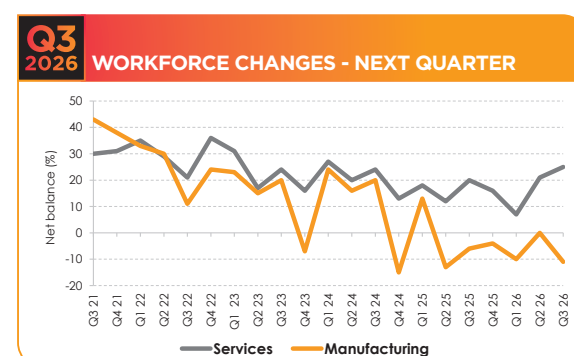
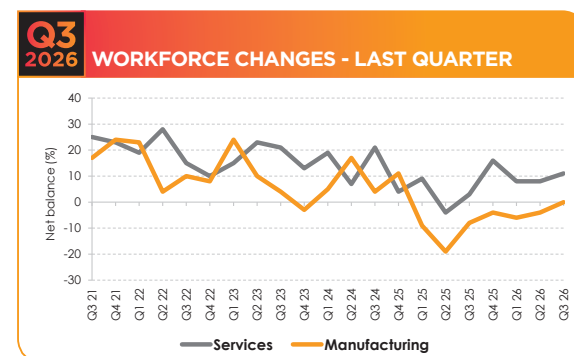
EMPLOYMENT

Labour market performance remains mixed, with the service sector continuing to drive job creation while manufacturers remain cautious about workforce expansion. The latest survey suggests that businesses are responding very differently to improving market conditions.

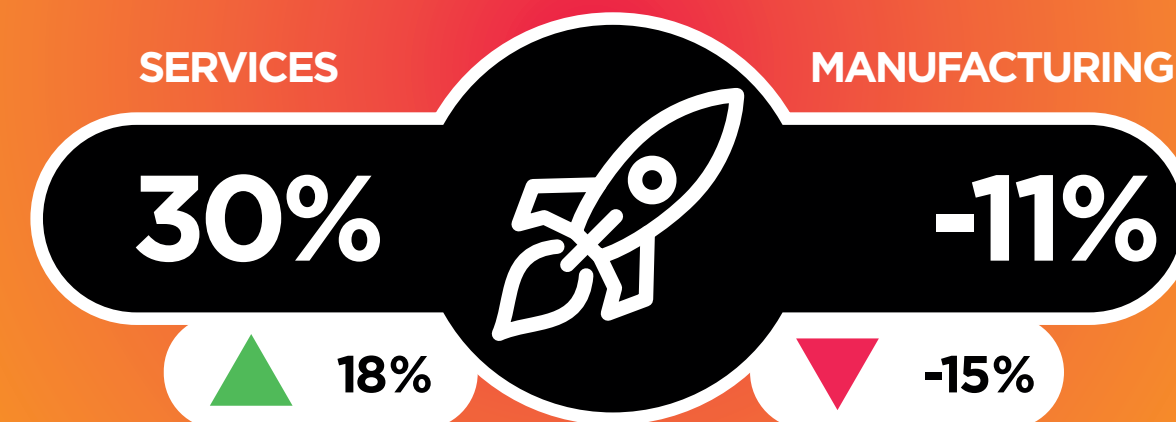
Service sector firms reported further employment growth during Q3, with the employment balance rising to by 11 points, up from 8 in Q2. More importantly, hiring intentions strengthened considerably, with expectations for the next quarter increasing from 21 points to 25. This suggests that stronger domestic and export demand is beginning to translate into greater confidence around recruitment and workforce growth.

Manufacturing firms reported a broadly flat employment position during the quarter, with the balance improving from -4 in Q2 to 0 in Q3. While this indicates that job losses have largely stabilised, the outlook remains more concerning. Hiring expectations for the next quarter fell from 0 to -11, suggesting that many manufacturers remain reluctant to expand headcount despite stronger sales and order books.

Overall, the labour market is showing signs of improvement, but growth remains concentrated in the service economy. While service firms appear increasingly confident about taking on staff, manufacturers continue to adopt a more defensive approach, reflecting ongoing concerns around costs, profitability and future business conditions.



INVESTMENT (CAPITAL)



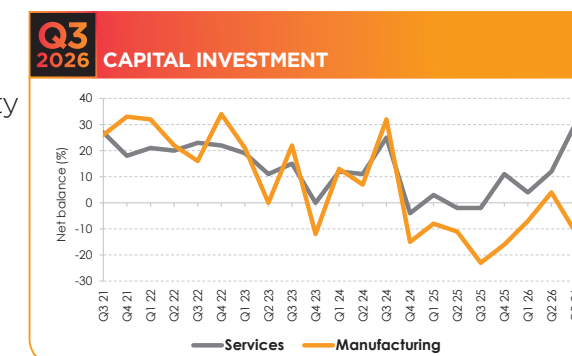
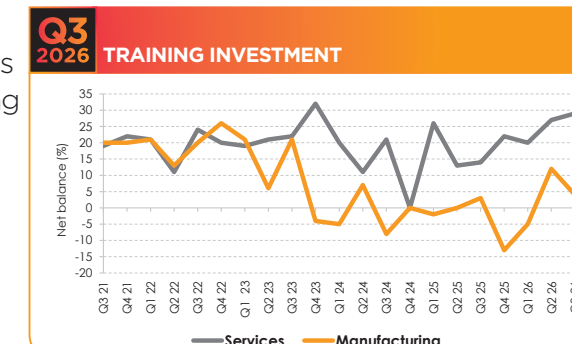
INVESTMENT

Capital investment plans present one of the starkest contrasts in the Q3 survey results. Service sector firms reported a strong increase in investment intentions, with the net balance rising by 18 points in Q3, representing the strongest reading since Q3 of 2024.

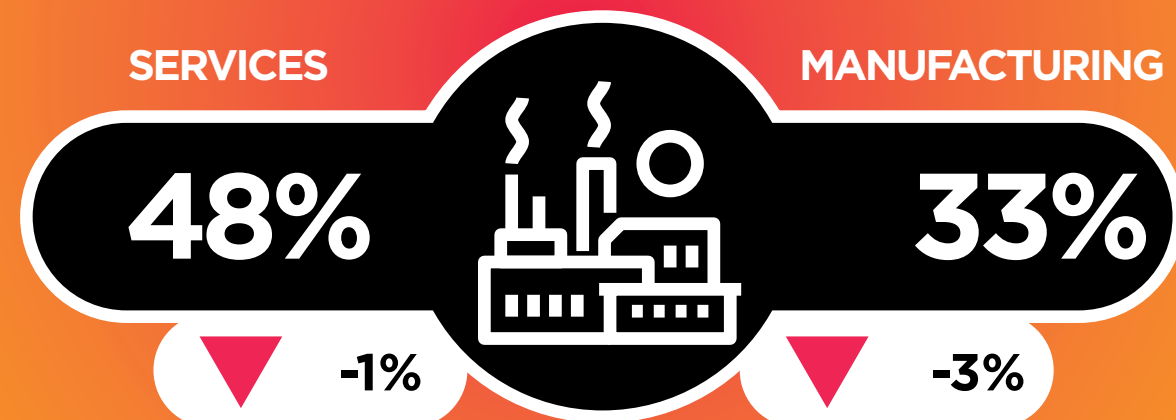
Manufacturers tell a very different story. After recording a modest positive balance of +4 in Q2, investment intentions fell back into negative territory at -11 in Q3. The divergence suggests that while service-sector firms are beginning to invest with greater confidence, manufacturers remain cautious about committing to major expenditure. Continued concerns around costs, profitability and economic uncertainty are likely influencing investment decisions within the manufacturing sector.

Investment in workforce skills remains one of the more resilient areas of business activity, with both sectors continuing to report positive training expenditure during Q3. However, the gap between services and manufacturing has widened considerably. Service-sector training investment increasing from +27 in Q2 to +29 in Q3, representing one of the strongest readings recorded in recent years. Manufacturers also continued to invest in training, but at a much lower level. The manufacturing balance fell from +12 in Q2 to +4 in Q3.

Overall, the results suggest that businesses continue to recognise the importance of investing in people, even where capital expenditure remains constrained. Training investment remains a clear priority for service-sector employers, while manufacturers are maintaining skills development programmes but adopting a more measured approach.



CAPACITY (FULL)



PRICES

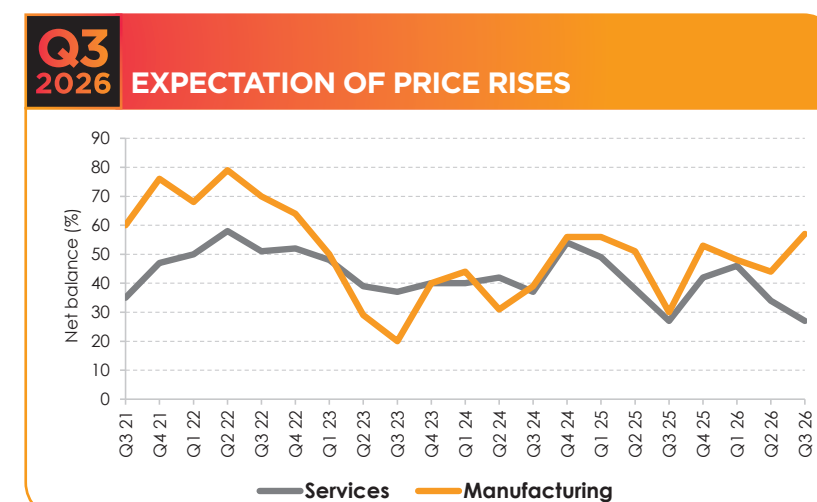
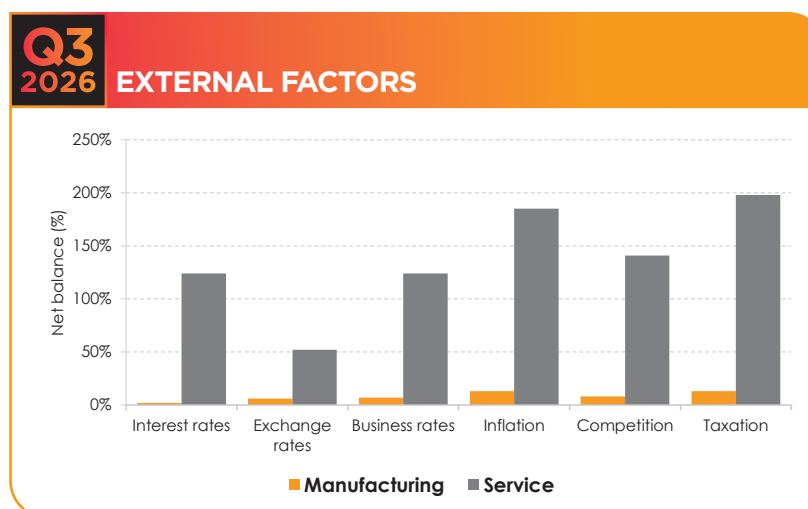
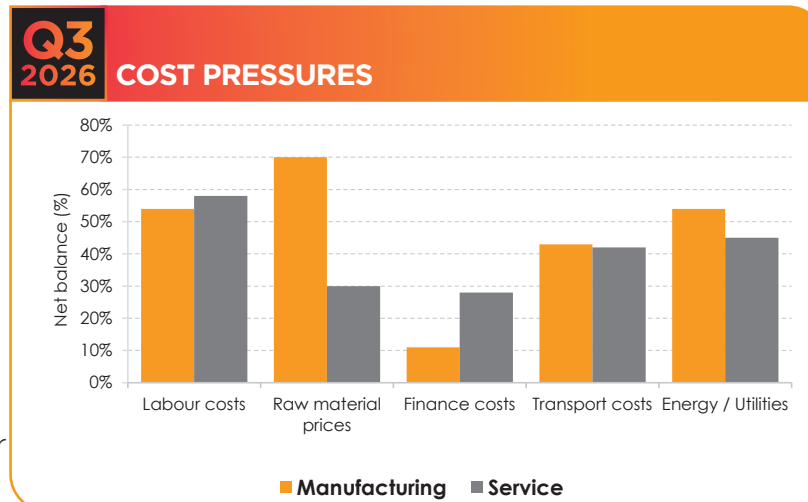


CAPACITY & COST PRESSURES

Cost pressures remain a significant challenge for businesses across West & North Yorkshire, although the nature of those pressures differs between sectors. Manufacturing firms continue to face particularly acute cost pressures, with raw material prices standing out as the single largest internal concern. Energy and utility costs also remain elevated, while labour and transport costs continue to weigh on margins. Service sector firms face a broader mix of pressures, with labour costs, energy costs and general overheads all impacting business performance.

External concerns continue to be led by taxation and competition among service businesses, while manufacturers report a combination of competition, taxation and exchange rate pressures as key challenges. Inflation remains an important concern for both sectors, although it no longer appears to dominate business sentiment to the extent seen in previous years.

These pressures are reflected in the price indicators. While service-sector price pressures eased during Q3, manufacturing firms reported a sharp increase, with the manufacturing price balance rising from 44 points to 57 points. The sector is continuing to experience stronger cost inflation and may face increasing pressure to pass costs on to customers.



PRICES

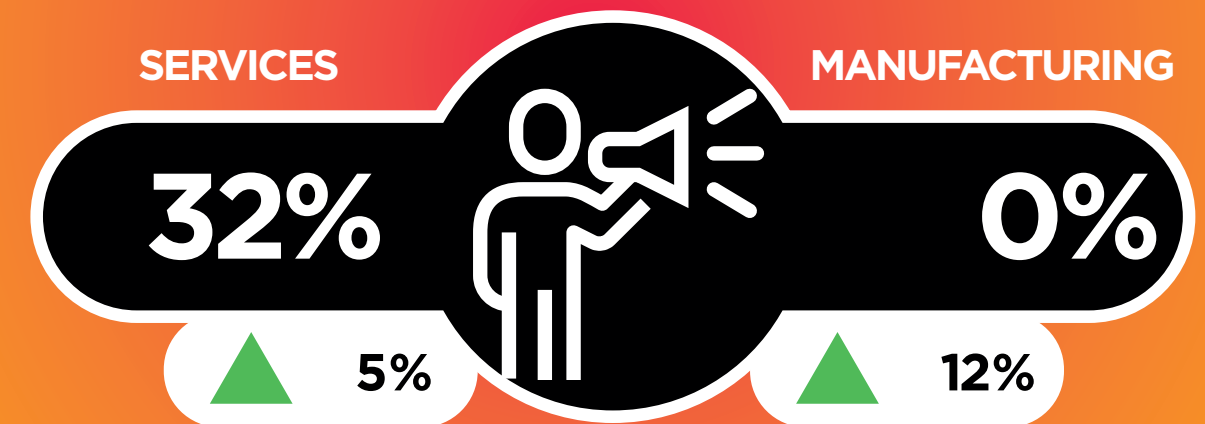
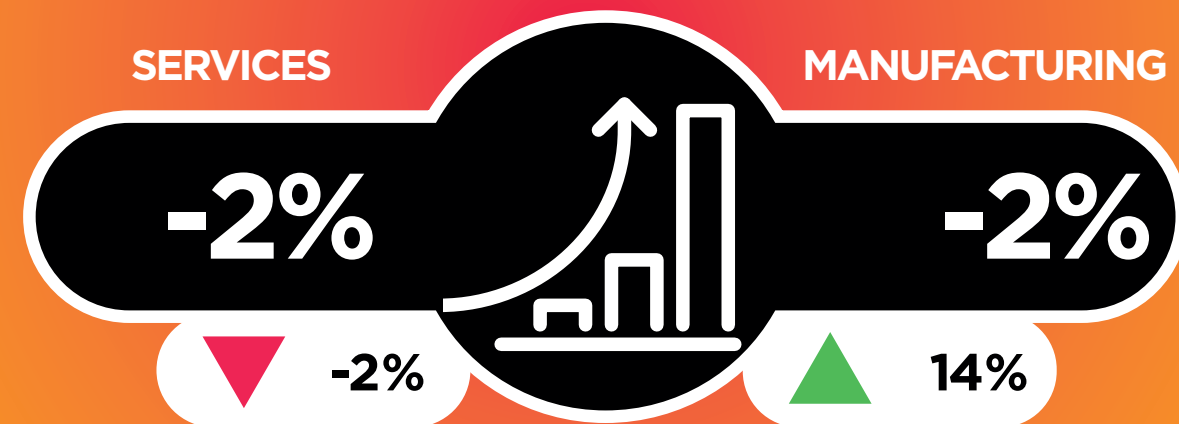
Price pressures eased in the second quarter of 2026, although they remained firmly positive across both sectors. The services net balance fell from 46 per cent in Q1 to 34 per cent in Q2, while manufacturing declined from 48 per cent to 44 per cent.

This indicates that more businesses still expect prices to rise than fall, but the intensity of upward pressure is moderating.

Manufacturing continues to face greater price pressure than services, maintaining a ten-point gap. Compared with Q2 2025, balances are four points lower in services and seven points lower in manufacturing, suggesting gradual disinflation rather than a decisive return to price stability for businesses.

CASHFLOW

CONFIDENCE (PROFITABILITY)

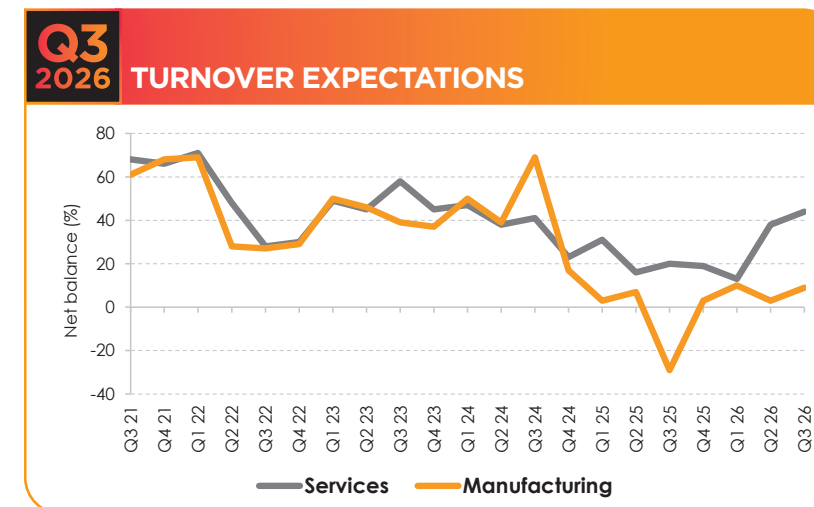
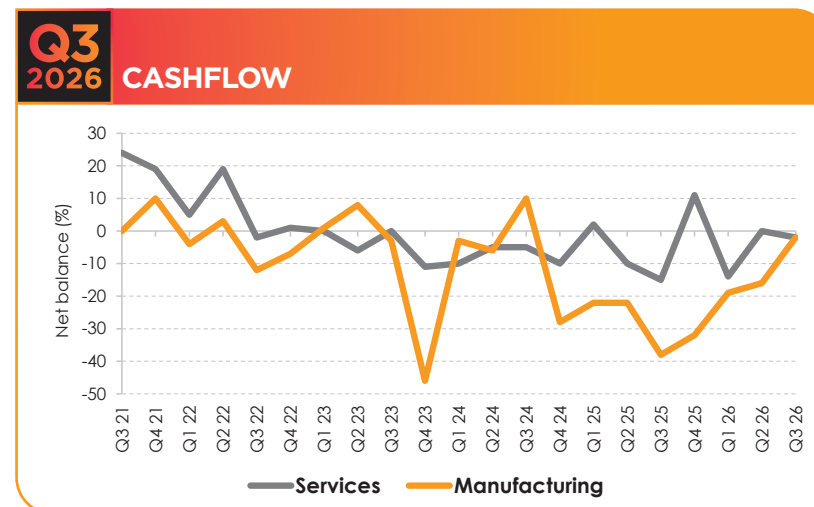


CASHFLOW

Cashflow conditions remain challenging across both sectors, although the latest results suggest that pressures have stabilised compared with earlier in the year. Both service-sector and manufacturing firms reported a cashflow balance of -2 in Q3, indicating that liquidity remains under pressure despite improvements in sales and order books.

For service businesses, the position represents only a slight deterioration from the neutral balance recorded in Q2, suggesting that stronger demand is not yet translating into significantly improved cash positions. Manufacturers, however, reported a marked improvement from -16 in Q2 to -2 in Q3, indicating that some of the acute financial pressures seen earlier in the year have eased.

While the gap between the two sectors has narrowed considerably, cashflow remains a concern for many businesses. Rising costs, ongoing investment requirements and continued pressure on profitability mean that many firms are still operating with limited financial headroom.

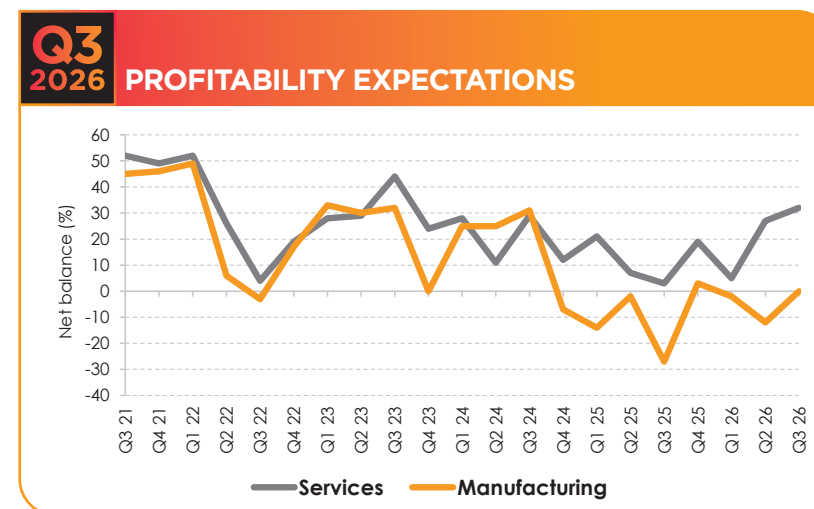


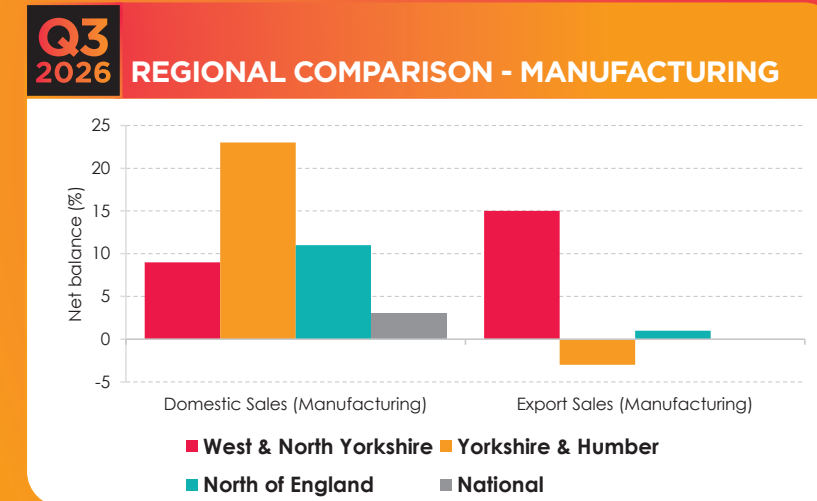
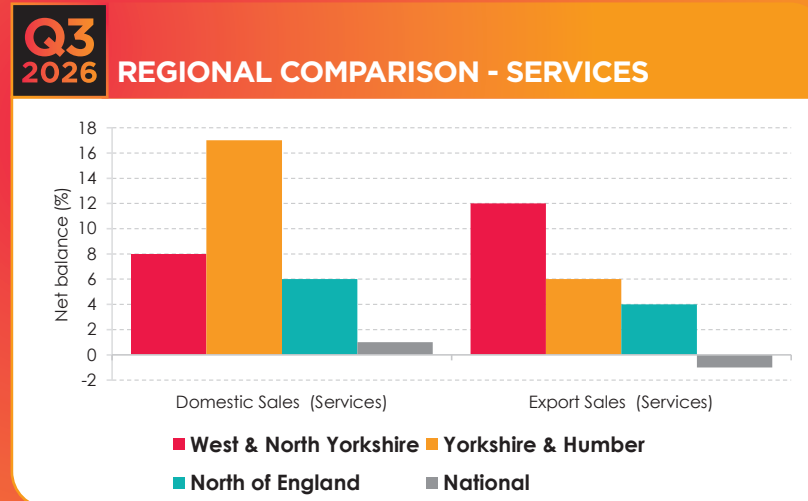
BUSINESS CONFIDENCE

Profitability expectations also improved during Q3, but once again the results reveal a sharp divide between the two sectors. Service sector firms reported a balance of +32, up from +27 in Q2, indicating growing confidence that stronger revenues will begin to offset ongoing cost pressures. The result is one of the strongest profitability readings recorded over the past two years.

Manufacturers, however, continue to face a much more challenging outlook. Profitability expectations improved from -12 in Q2 to 0 in Q3, representing a welcome recovery but still leaving the sector with a neutral outlook. Despite stronger sales and orders, high input costs and margin pressures continue to constrain confidence.

Profitability growth across West & North Yorkshire remains heavily reliant on the service sector but manufacturers have become less pessimistic.

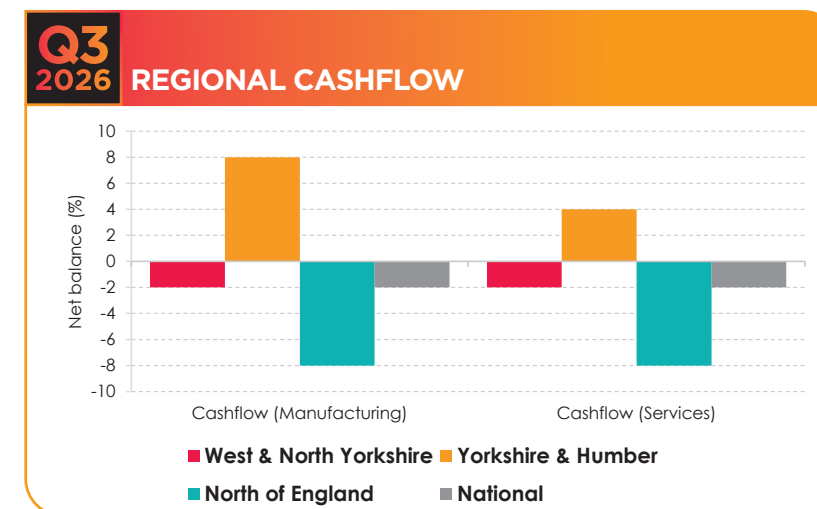
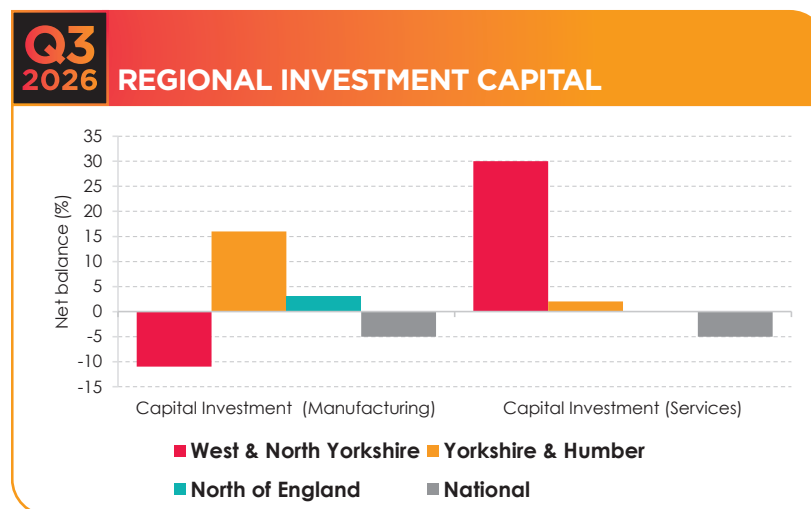
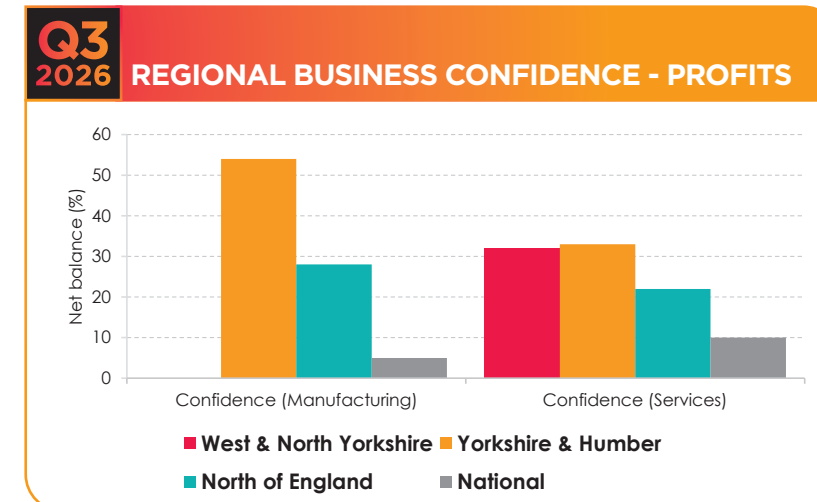
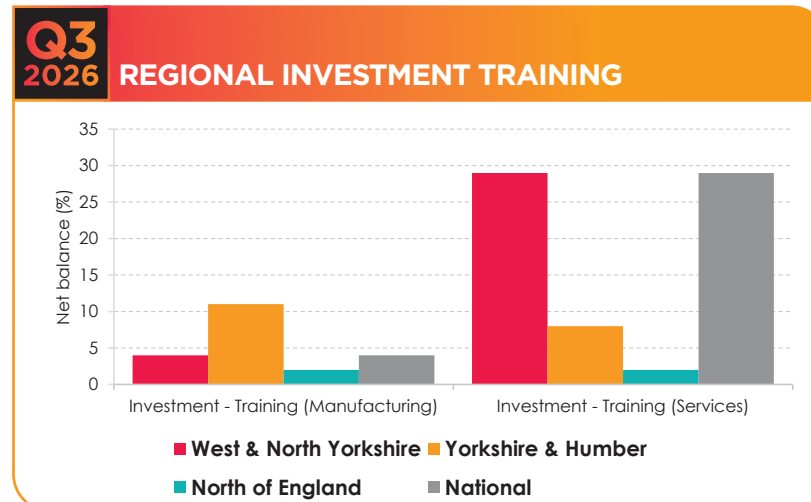




NATIONAL AND REGIONAL COMPARISONS

West & North Yorkshire is shaping up really well on service sector sales when compared to the rest of the country, as its intention to invest in training. Manufacturers too are posting better sales figures than seen elsewhere in the UK. Both sectors are also looking at healthier levels of capital investment than the national average.

There is, however, a stark divide between services and manufacturers when it comes to expectations on profits, with the former far more bullish than elsewhere in the country.



CONTACT US

T 08455 240 240

E info@wnychamber.co.uk

W www.wnychamber.co.uk

T @WNYChamber



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