Q1

2022

QUARTERLY ECONOMIC REPORT

West & North Yorkshire Chamber of Commerce

IN PARTNERSHIP WITH

Leeds City Region Enterprise Partnership

Working in partnership with the

West Yorkshire Combined Authority

Amanda Beresford
Chair
West & North Yorkshire Chamber of Commerce

This quarter we report on the perfect storm which our regional business community is facing.

This is almost entirely driven by supply side challenges as raw materials, shipping disruption, rising energy costs, haulage costs and labour shortages are all contributing to increasing the costs of doing business. This is further impacted by imported inflation, global Covid spikes and the tragic war in Ukraine, all of which follows the most challenging two years for business.

And yet, despite this, underlying domestic demand remains strong and early signs would indicate that international demand may also be starting to open up as travel restrictions ease and companies seek out new export opportunities.

Rest assured the Chamber will continue to listen and raise awareness of business concerns with Government and seek to develop support measures to help firms meet the challenges we are facing.

Once again I would like to thank West Yorkshire Combined Authority and the Leeds City Region Enterprise Partnership for their ongoing support of the Chamber's economic survey.

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

The overriding concerns this quarter are inflation and the spiralling costs of simply doing business. Companies in some cases have reported triple digit increases for energy as contracts expire, and the cost of key raw materials such as metals have seen prices spike in the wake of the tragic Russian invasion of Ukraine. Elsewhere supply chains with China have been impacted by their Government's 'Covid Zero' policy leading to major delays as a new wave of the virus forces ports to close temporarily.

At home, labour shortages are impacting on recruitment, at all levels not just at the high skilled end of the jobs spectrum, in turn this is putting additional pressure on firms' abilities to attract and retain talent, leading to increased salary expectations.

Headwinds are strong and the impact of rising inflationary pressures will likely continue into the next two quarters, however business confidence is holding up with firms continuing to report strong domestic demand. Data from the Chamber's International Trade team suggests an increase in the number of firms accessing Carnet's, the documents needed to temporarily export goods for international trade shows. With a rise in the number of companies reporting increased export orders there are signs that companies are reopening international opportunities.

As always your views are important so please get in touch with comments or issues at mark.goldstone@wnychamber.co.uk

Sir Roger Marsh OBE DL
Chair
Leeds City Region Enterprise Partnership and Chair, NP11

The results of the survey show that despite the economic headwinds the UK and West Yorkshire economy is facing, business confidence remains relatively resolute. The challenges are primarily driven by supply-side problems such as increased input costs, recruitment challenges, the ongoing Covid situation in many countries and now the war in Ukraine.

The humanitarian impact of the War will be incredibly significant, and we are beginning to see some of the economic impacts. The full impact, both humanitarian and economic, of the War will take time to understand fully.

Whist the economic recovery in West Yorkshire has been largely driven by domestic demand, international demand is showing green shoots of growth. International sales in Q1 2022 remained subdued, but export orders for manufacturers showed signs of growth quarter-on-quarter. The opening up of economies has allowed more international trade and travel to take place, which is helping to secure international orders.

The inability to recruit is continuing to have a negative impact on businesses. Of those businesses surveyed, one in two service sector firms and two in three manufacturers tried to recruit in the last quarter. Nearly 70 per cent of those experienced difficulties hiring talent. This is constraining the economic recovery and could weigh down on future growth if businesses aren't able to get the employees they need.

Alongside labour shortages, businesses are facing rising inflationary pressures last seen in the early 1990s. Energy and utility prices are reported as a major problem facing businesses, particularly those in energy-intensive manufacturing. Many commodity prices have recently increased due to the war in Ukraine, particularly those found in Ukraine and Russia, such as wheat and nickel. Delays at ports in China due to Covid lockdowns is adding to these economic headwinds, with data suggesting that congestion at two Chinese ports is at its highest level in five months.

Unsurprisingly, expectation of price increases remains at record levels as producers pass on their increased cost pressures to consumers. This expectation is held across businesses in both the manufacturing and service sector. Updated inflation forecasts from the Bank of England and the Office for Budget Responsibility support this as prices are expected to continue to rise. This could put further pressure on the economic recovery and future growth as overall consumption is reduced to deal with increased prices.

The LEP continues to support businesses to recover from the impacts of the pandemic, to build resilience and to achieve sustainable growth. Businesses can access support through the LEP's Business Support Service by calling the helpline on 0113 348 1818 or email businesssupport@the-lep.com

METHODOLOGY
This quarter there were 402 respondents of business owner / senior manager / director / partner status. 47% of the sample was actively trading internationally. Businesses were surveyed by telephone or by online questionnaire between the periods 14th February to the 7th March 2022.

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).
- Mid Yorkshire Chamber of Commerce (which covers 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
The pace of growth in UK sales plateaued in the last quarter for both services and manufacturing, although net balances remain at pre-Covid levels indicating underlying demand remains.

EXPORT SALES
International sales remain subdued as companies continue to deal with the fallout from the pandemic. Companies continue to face disruption in their trade with the EU, some of this is down to haulage disruption and increasing costs. Looking forward, manufacturing firms are indicating an uptick in orders as travel restrictions ease.

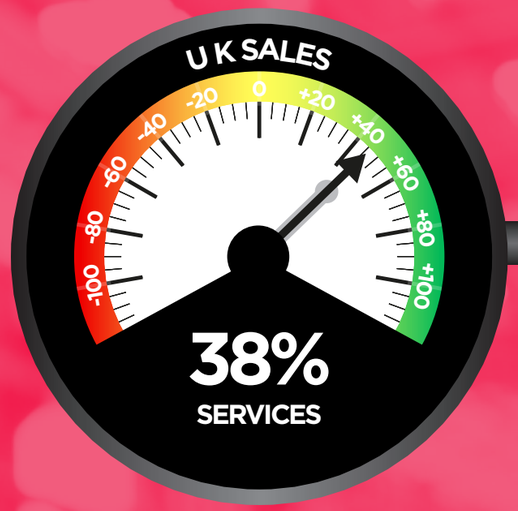
INVESTMENT
Companies are most likely to be directing investment towards new technology followed closely by investment into new talent pipelines and also into development of existing staff. This is likely being driven by ongoing recruitment challenges and may help to increase productivity of companies across our region.

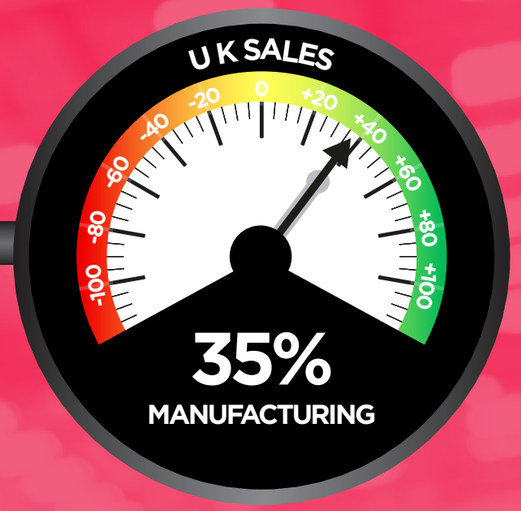
EMPLOYMENT
Recruitment difficulties are reported by nearly 70% of companies across our region leaving firms struggling to fill vacancies.

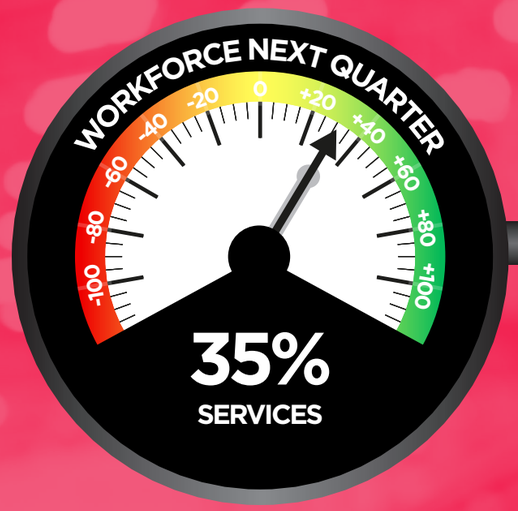
BUSINESS CONFIDENCE
Companies are most likely to be Inflationary pressures driven by energy, transport costs and labour shortages are the stand out features this quarter. 87% of manufacturers say raw material prices are a major concern this quarter equalling the record high set last quarter. Cost pressures are reflected in cash flow with many firms reporting this has worsened in the last quarter, this is most acute with manufacturers and business to consumer facing companies.

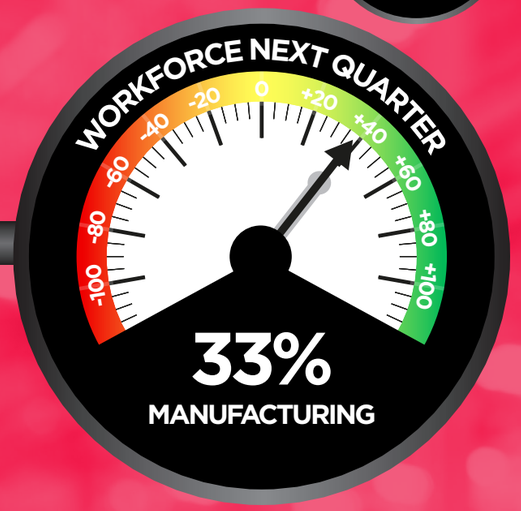
BUSINESS COSTS AND CONCERNS
Despite all of the headwinds, business confidence held up in the last quarter, perhaps an indication that many see current market conditions as a short term barrier to growth.

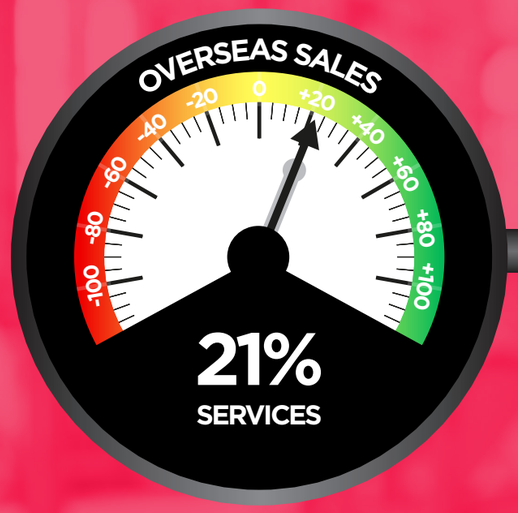

CURRENT QUARTER
PREVIOUS QUARTER
Q1 22


U K SALES
38%
SERVICES

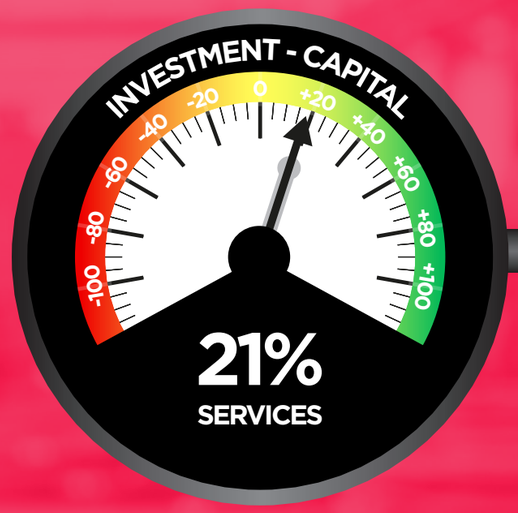

U K SALES
35%
MANUFACTURING

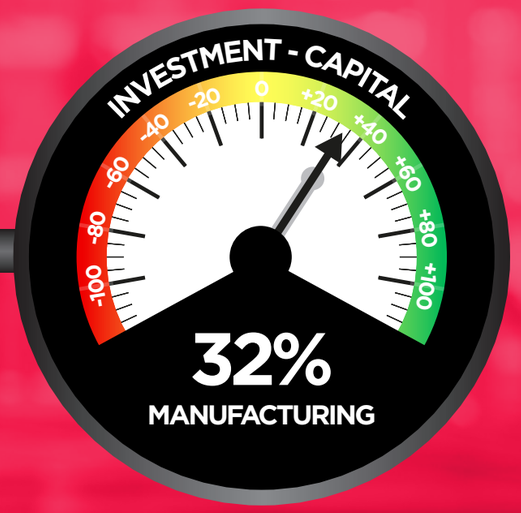

WORKFORCE NEXT QUARTER
35%
SERVICES


WORKFORCE NEXT QUARTER
33%
MANUFACTURING


OVERSEAS SALES
21%
SERVICES


OVERSEAS SALES
14%
MANUFACTURING

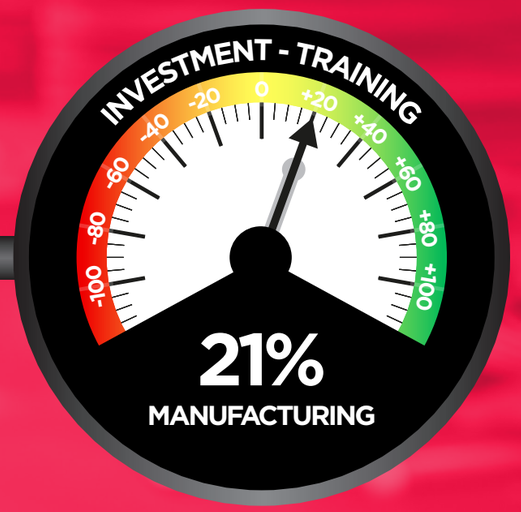

INVESTMENT - CAPITAL
21%
SERVICES


INVESTMENT - CAPITAL
32%
MANUFACTURING


CONFIDENCE - PROFITS
52%
SERVICES


CONFIDENCE - PROFITS
49%
MANUFACTURING


INVESTMENT - TRAINING
21%
SERVICES


INVESTMENT - TRAINING
21%
MANUFACTURING

Q1

The service sector accounts for around 80% of businesses in West & North Yorkshire and contributes significantly to employment and the economy. The sector has significant clusters including professional and financial services, banking, legal, digital and creative across the region. Retail and tourism also pay a leading role in parts of our region. This survey includes results from all sub-sectors.

Manufacturing (including construction, utilities and primary industries) represents approximately 19% of the companies in West & North Yorkshire region. Manufacturing is still a major employer in our region with over 130,000 peopled employed here. Analysis of sub-sectors shows that the region has above-average representation in more advanced sectors such as chemicals and chemical production, medical technology, electrical equipment and machinery. Survey results include responses from across all major sub-sectors. The sample used in this survey includes a high proportion of manufacturing exporters.

UK SALES

SERVICES

38%

▼ -8%

MANUFACTURING

35%

▼ -2%

OVERSEAS SALES

SERVICES

21%

▼ -1%

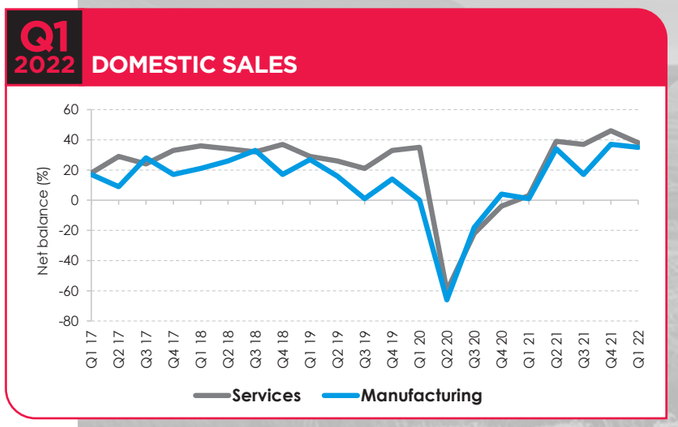
MANUFACTURING

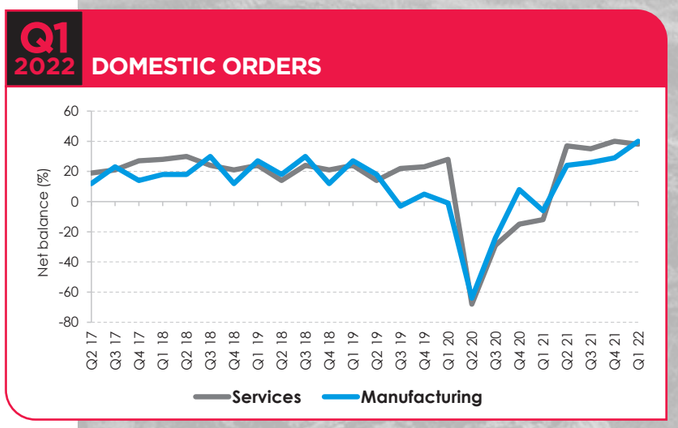
14%

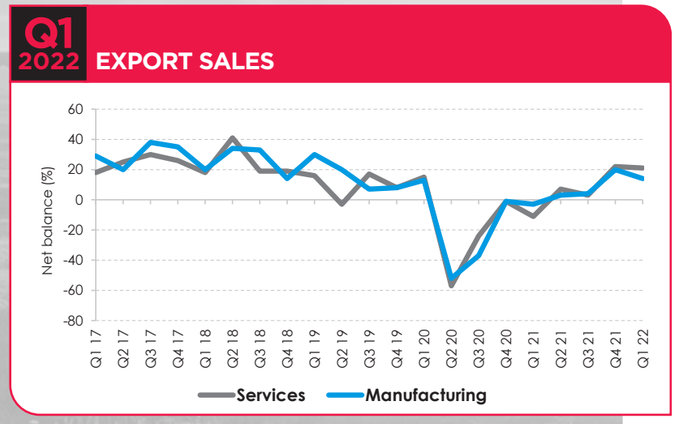
▼ -6%

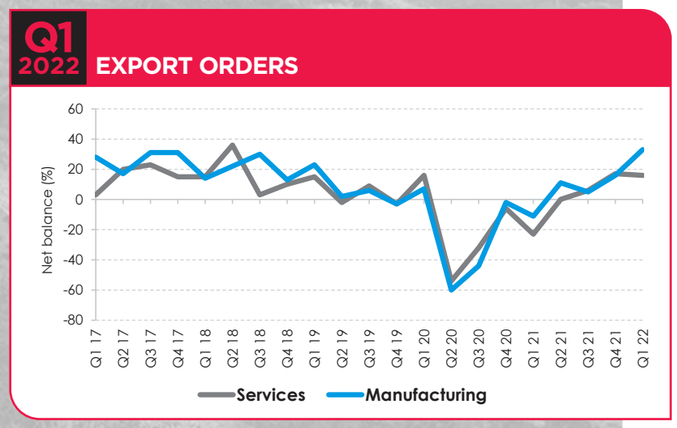
DOMESTIC SALES

UK sales appear to have plateaued as companies deal with rising costs and uncertainty. Supply chain constraints are still holding back growth but potential demand remains as forward orders amongst manufacturers continue to grow and service sector still at pre-pandemic levels.









INTERNATIONAL SALES

International sales remain subdued although signs that a slow recovery may be starting with forward orders looking more positive.

The opening up of international travel is enabling more firms to take sales trips and attending exhibitions particularly in Europe, which in turn is bringing more demand for Carnets (the documents needed to take goods temporarily over borders and are used extensively to display at trade shows).

INDUSTRY COMMENT:

"Here at the Chamber we recorded slight increases in trade documentation volumes at the start of the year, bucking the trend, but lookout for more disruption due to world events - lockdowns in China, sanctions and removal of remaining Brexit easements from July of this year."

Tim Bailey, Trade Director, Chamber International

EMPLOYMENT (NEXT QUARTER)

SERVICES

35%

▲ 4%

MANUFACTURING

33%

▼ -5%

INVESTMENT (CAPITAL)

SERVICES

21%

▲ 3%

MANUFACTURING

32%

▼ -1%

EMPLOYMENT

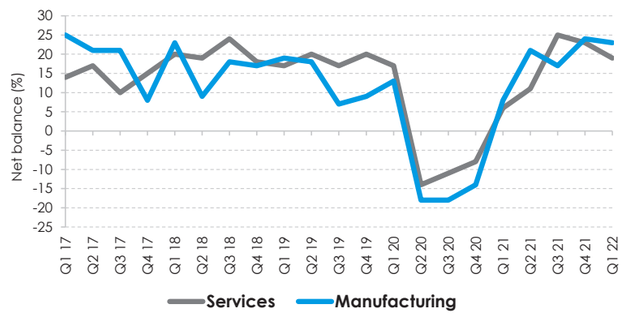
The inability to recruit is impacting on workforces across the region with firms reporting a slowing in the pace of growth of employment. This is very much a supply side challenge rather than a lack of job opportunities.

1 in 2 services sector firms and 2 in 3 manufacturers all attempted to recruit in the last quarter with nearly 70% experiencing difficulties hiring talent.

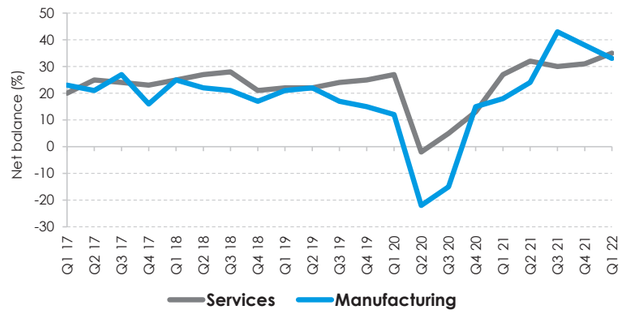
Attempted to recruit	YES	NO
Services	51%	49%
Manufacturing	67%	33%

Experienced recruitment difficulties	YES	NO
Services	69%	31%
Manufacturing	68%	32%

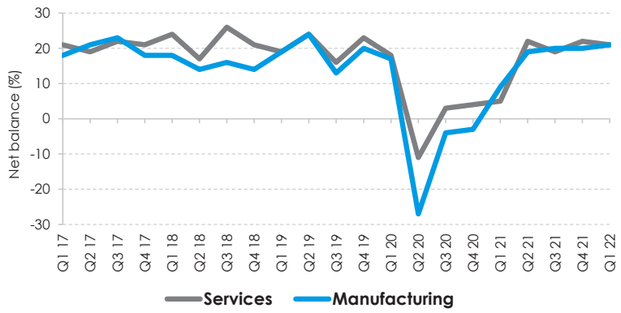
Q1 2022 WORKFORCE CHANGES - LAST QUARTER



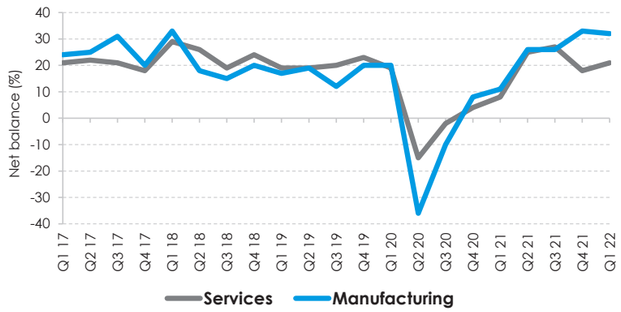
Q1 2022 WORKFORCE CHANGES - NEXT QUARTER



Q1 2022 TRAINING INVESTMENT



Q1 2022 CAPITAL INVESTMENT



INVESTMENT

Investment intentions remain in place despite the pressures from external factors. On capital investment, the most likely outcome is investment in new technologies. In part this is driven by Covid adaptations but increasingly the ongoing labour scarcities will also be influencing outcomes.

It is also good to see firms putting plans in place for early talent development, as companies struggle to fill vacancies and overseas labour markets are cut off for many firms recruiting at the junior end of the jobs market.

Further details on page 20.

CAPACITY (FULL)

SERVICES **58%** ▲ 2%

MANUFACTURING **52%** ▲ 4%

PRICES

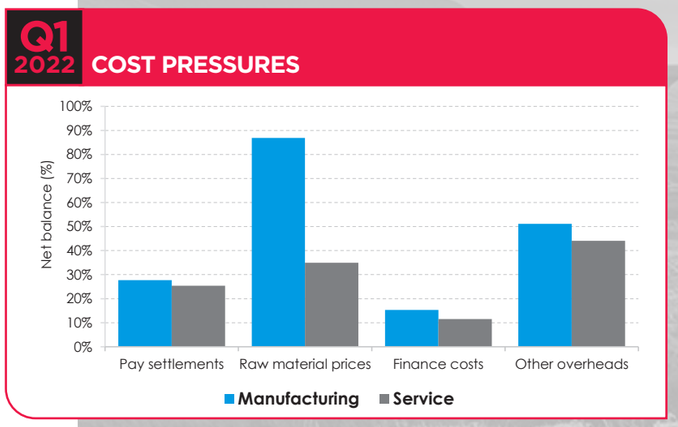
SERVICES **50%** ▲ 3%

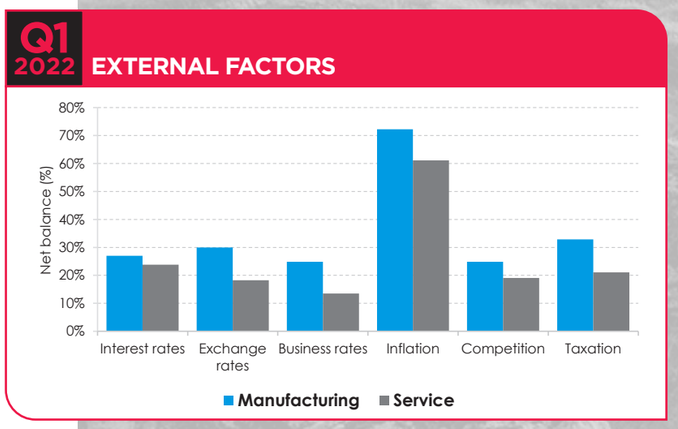
MANUFACTURING **68%** ▼ -8%

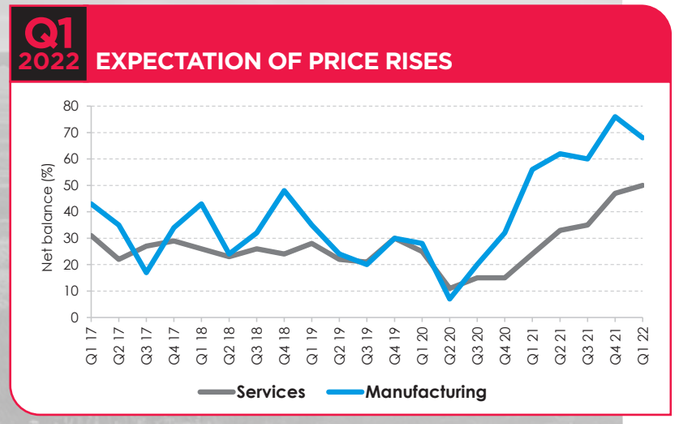
COST PRESSURES, EXTERNAL FACTORS

It is no surprise this quarter that the two stand-out factors impacting businesses are raw material prices and inflation. Energy and utility prices also came through strongly within the 'Other' section with many firms reporting significant price rises.

Availability of raw materials is also a major concern with many unable to purchase components to fulfil orders. Delays at ports in China due to Covid lockdowns is mentioned by firms, with data suggesting that congestion at two key ports is at its highest level in 5 months. This will ripple through supply chains as we saw at the height of the pandemic adding costs and uncertainty.







EXPECTATION OF PRICE INCREASES

Expectation of price increases remain at record levels and it would appear there is only so far increasing costs can be passed on before customers hold back on their purchasing decisions. Ultimately this will hold back the pace of growth and could impact the viability of some businesses, many of whom are already indebted due to the Covid pandemic.

CAPACITY

	Full capacity	Below capacity
Service	57%	43%
Manufacturing	52%	48%

CASHFLOW

SERVICES

5%

▼ -14%

MANUFACTURING

-4%

▼ -14%

CONFIDENCE (PROFITABILITY)

SERVICES

52%

▲ 3%

MANUFACTURING

49%

▲ 3%

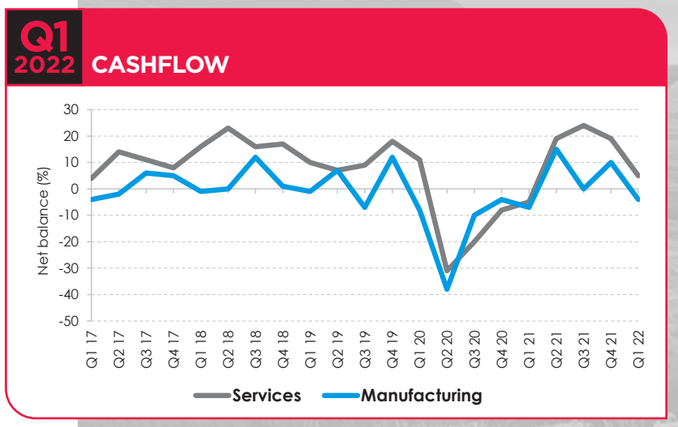
CASHFLOW
Rising costs are having a material impact on cash flow within firms across the region. Business to consumer firms appear to be most impacted with manufacturers also more likely to say cash flow is getting worse than better.

INDUSTRY COMMENT:
"Since the conflict in Ukraine, nickel prices have gone up from c.£19-20,000 per tonne, to today's price (9th March 2022) of £64,000 per tonne and copper has gone up from £8,000 per tonne to £14,000 per tonne and is still on the rise."

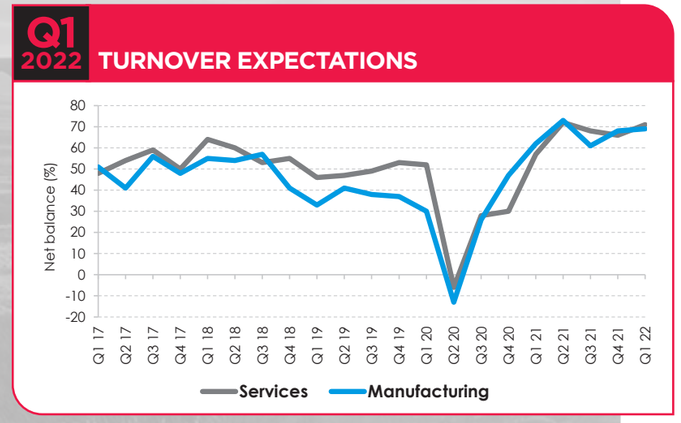
SME Manufacturer in Leeds

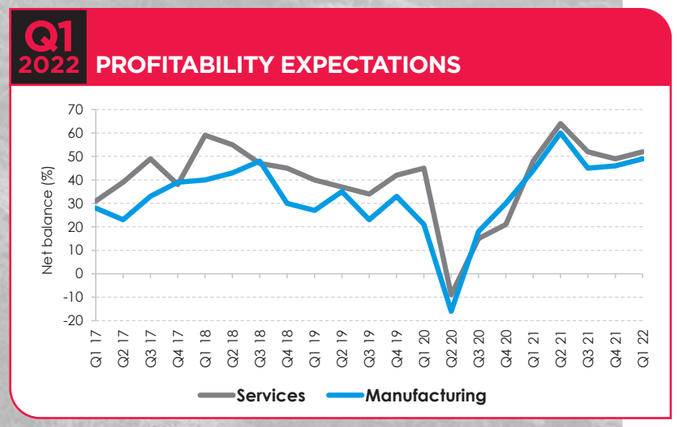
"Activity levels are high, but we are on a roller coaster of supply chain issues, resolve one and another one comes along. We face constant barrage of price increases and ad hoc surcharges; it seems never ending."

SME Manufacturer, Bradford



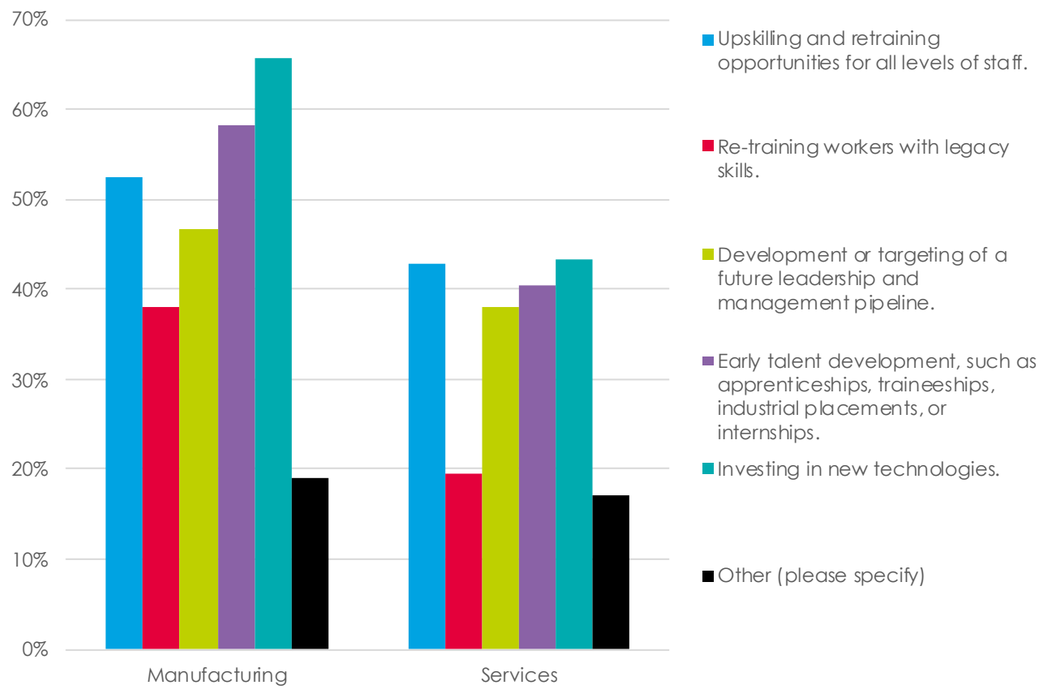
Cashflow	Net balance
Business 2 Consumer	-12%
Business 2 Business	10%
Manufacturing	-4%



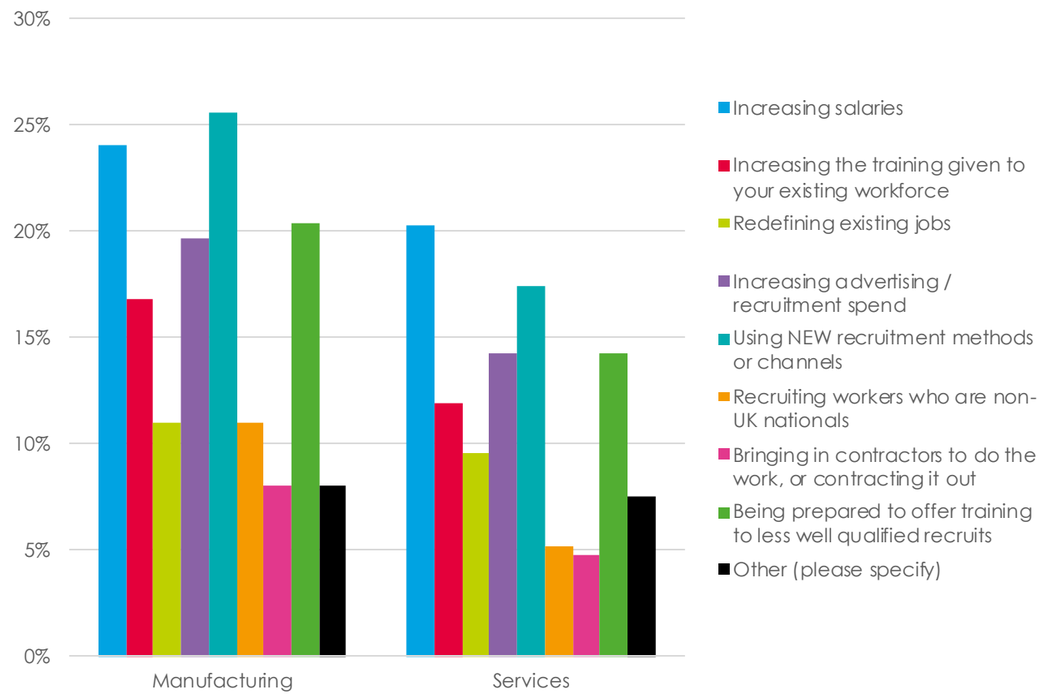


BUSINESS CONFIDENCE
Despite the perfect storm we find ourselves in, business confidence remains largely unchanged from the last quarter with indications that underlying demand for goods and services remains strong.

Supply side challenges seem to be the over-arching theme impacting businesses and many have factored in further price increases, longer lead times and more flexibility when quoting for business to ensure that further unforeseen price hikes do not make opportunities unviable.



DO YOU HAVE BUSINESS PLANS IN PLACE THAT COVER THE FOLLOWING? PLEASE TICK ALL THAT APPLY



WHAT, IF ANYTHING, IS YOUR SITE DOING TO OVERCOME THE DIFFICULTIES THAT YOU ARE HAVING FINDING CANDIDATES TO FILL THESE HARD-TO-FILL VACANCIES?

POST-PANDEMIC PLANS FOR ECONOMIC RECOVERY

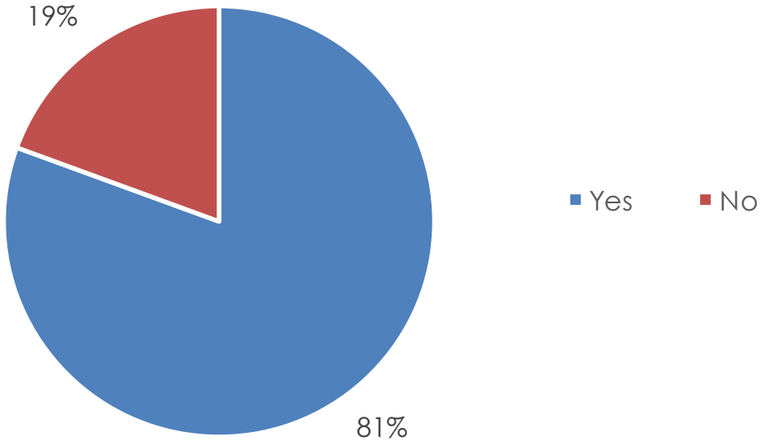
With acute labour shortages being experienced across most sectors and levels of the economy, firms have reported on the methods they are using to mitigate these challenges. The upheaval of the pandemic continues to subdue recruitment figures, with the number of open vacancies remaining at record levels. As businesses begin to look past the initial phase of the economic reopening, these recruitment difficulties serve as an ongoing hindrance.

A leading response from across the economy appears to be the decision to increase salaries, however we would question how sustainable this is for many sectors. With the rise in remote working as a standard option, there has been a reported increase in the number of regional firms battling with rivals based in the capital (or abroad) on salary offerings. Survey data also points to other favoured solutions; with better-funded and diversified recruitment channels also proving popular in our survey. These can vary from the use of specialist recruitment agencies, to utilising online job boards such as Linkedin and Indeed. The crunch in talent acquisition has also led to a reported increase in firm's general willingness to take on staff who may not meet the typical job specification criteria, perhaps demonstrating the severity of the labour shortage across a number of sectors.

This quarter we asked businesses about their post-pandemic plans. Perhaps unsurprisingly, manufacturers have signalled an intention to invest in improved technologies and machinery, possibly aimed at automating much of the production that otherwise would have been employee-led. Given the broad range of sectors surveyed as 'services', particularly hospitality, it would be prudent to assume that a similar situation is occurring, with investment in new technologies also a leading response.

The next three most common plans all relate to investment in people, something the Chamber has long said needs to be an urgent priority. Development of new talent pipelines through apprenticeships and related pathways to attract young people is one of the most likely outcomes.

Alongside this reskilling, upskilling and in house skills management appears to be a prevalent response by firms, with around half of businesses on average looking to invest in their existing staff's skillsets. The third point of note is a desire to invest in future leadership and management. This is a crucial area if the region is to improve productivity, an area we have for a long time lagged behind the rest of the UK.



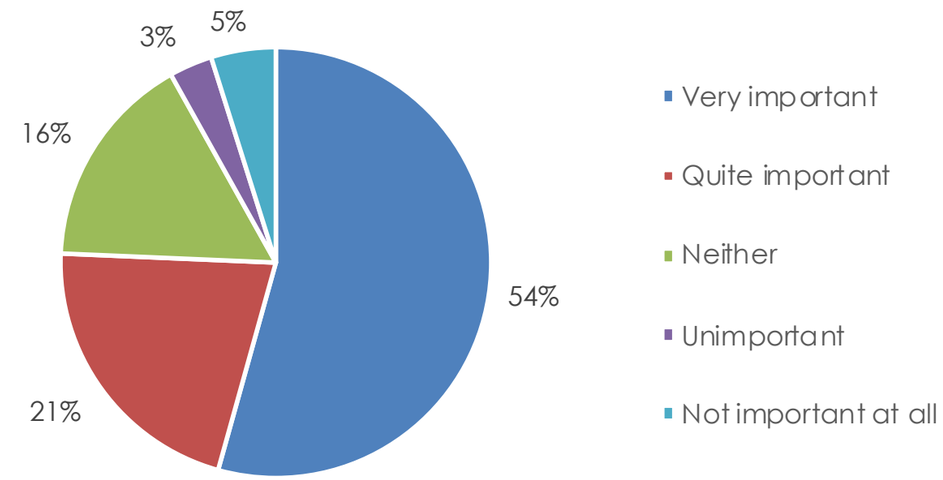
DO YOU THINK LEEDS AND SHEFFIELD SHOULD BE CONNECTED VIA AN NPR LINK?

SUPPORT FOR RAIL INVESTMENT BY COMPANIES IN WEST AND NORTH YORKSHIRE

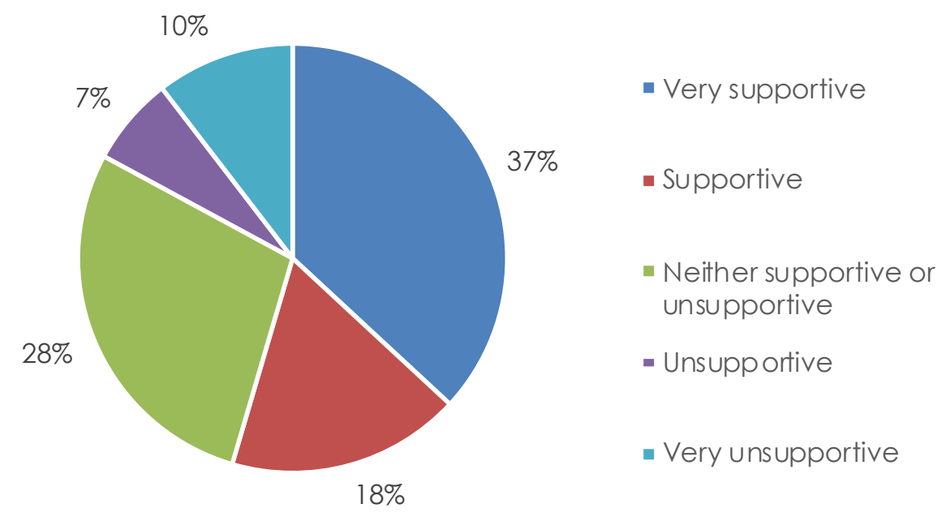
In light of the recent decision by Government to scale back ambitions for the region's railway improvements, the Chamber surveyed members to gain an insight into how businesses have reacted. A majority of firms have reported to be supportive of efforts to bring HS2 to Leeds and York, with 55% indicating their backing. Less than 1/5 said they were unsupportive, suggesting that the plans put forward in the recently released Integrated Rail Plan (IRP), which omit the planned 'Eastern Leg' to Leeds, do not meet the ambitions of the majority of the region's business community.

Northern Powerhouse Rail (NPR), another key feature of the IRP which sought to connect the North's 'core cities' with improved high-speed rail routes, garnered an even greater vote of confidence from members. 3/4 of respondents claimed they believe the building of the new rail links to be important, with less than 1/10 of firms believing NPR to be unimportant. The IRP ultimately promised a series of upgrades to existing routes, with the original plans for new links being mostly mothballed.

In particular, the firms surveyed gave their overwhelming backing to an NPR link connecting Leeds and Sheffield. Tipped to significantly improve journey times and capacity between Yorkshire's two largest cities, businesses have signalled their support for the route extension. There have been calls from across the business community for the section to be added to official plans, with the proposed utility of the route recognised as having the potential to deliver a GVA uplift worth billions of pounds. Currently less than 6% of journeys between Leeds and Sheffield are done by rail with over 90% of journeys still done by car due in large part to the current unreliability and timings of rail journeys.



HOW IMPORTANT DO YOU THINK IT IS THAT HS2 TO LEEDS AND YORK IS BUILT?



TO WHAT EXTENT DO YOU SUPPORT HS2 BEING EXTENDED TO LEEDS AND YORK?

Q1

The British Chambers of Commerce Quarterly Economic Survey (QES) is the largest and most representative independent business survey of its kind in the UK. Each quarter over 6,000 businesses complete the QES, making it the largest business survey in the UK.

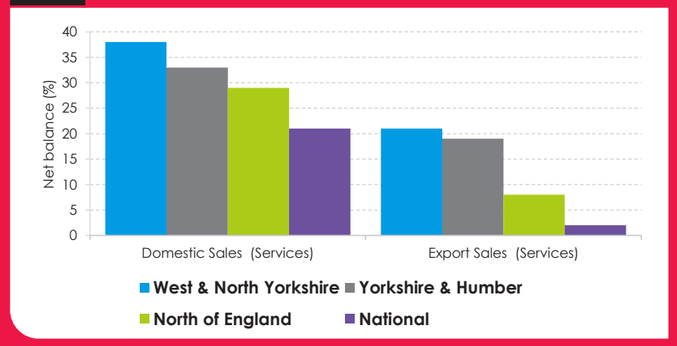
The QES is the first economic indicator of the quarter, published in advance of official figures and other private surveys, and it consistently mirrors trends in official data. For this reason, the survey is closely watched by policy-makers such as the Treasury, the Bank of England, the Office for Budget Responsibility, the EU Commission and the International Monetary Fund.

NATIONAL AND REGIONAL COMPARISONS

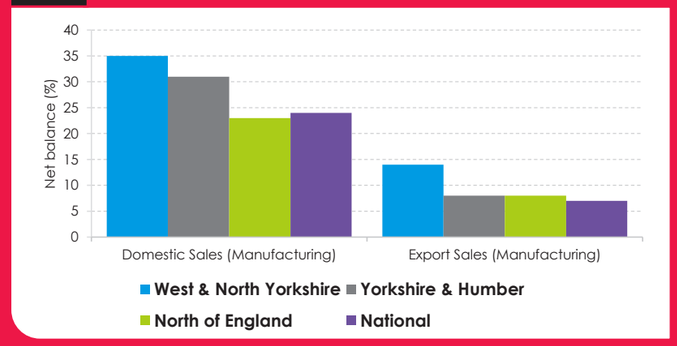
Overall our region appears to be fairing a little better than the rest of the North and nationally on domestic sales activities. Elsewhere we are following the national trends on training investment and cashflow, with the majority of manufacturers reporting decreasing cash flow. Yorkshire businesses also appear to be a little more confident about future profits compare to the nation as a whole.

.

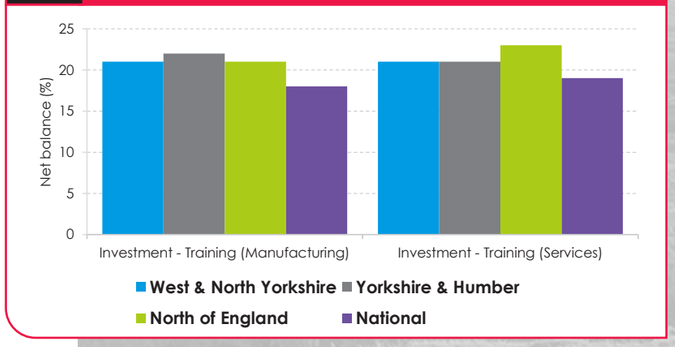
Q1 2022 REGIONAL COMPARISON - SERVICES



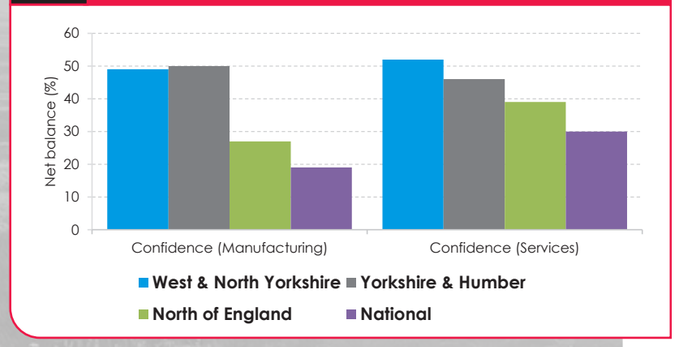
Q1 2022 REGIONAL COMPARISON - MANUFACTURING



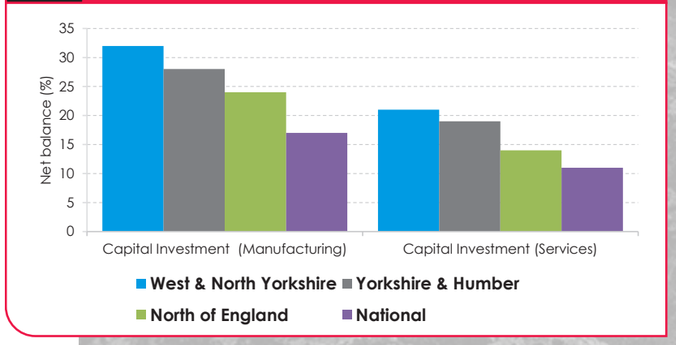
Q1 2022 REGIONAL INVESTMENT TRAINING



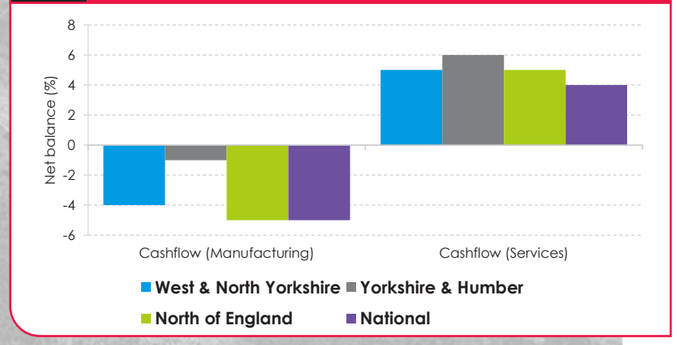
Q1 2022 REGIONAL BUSINESS CONFIDENCE - PROFITS



Q1 2022 REGIONAL INVESTMENT CAPITAL



Q1 2022 REGIONAL CASHFLOW



Shevaun Haviland
Director General
British Chambers of Commerce

"The level of inflationary pressures has soared to record levels and we are now truly in uncharted territory. Firms cite cost increases coming at them from all angles."

- Nearly 2 in 3 (62%) firms expect to raise prices, a new historical high
- More than 3 in 4 (77%) cite inflation as a growing concern for their business, also an historical high
- Indicators for cash flow weaken as cost of doing business crisis escalates

The BCC's Quarterly Economic Survey (QES) for Q1 2022 – the UK's largest independent survey of business sentiment and a leading indicator of UK GDP growth – shows inflationary pressures on firms reaching levels never previously recorded in its 33-year history.

The survey of over 5,600 firms also revealed a continuing stagnation in the proportion of firms reporting increased domestic sales and investment, while cashflow weakened slightly in Q1.

BUSINESS ACTIVITY
42% of respondents overall reported increased domestic sales in Q1, down from 45% in Q4. 18% reported a decrease, up from 16% the previous quarter.

In the services sector, the balance of firms reporting increased domestic sales dropped to +21% in Q4, from +26% in Q4.

In the manufacturing sector, the balance of firms reporting increased domestic sales was +24% in Q4, up from +22 in Q4.

INFLATIONARY PRESSURES
62% of firms expect their prices to rise in the next three months, which is another record high figure for this metric and an increase from 58% in Q4. Only 1% overall expect a decrease in their prices.

For production & manufacturing firms, this rises to 75% and stands at 75% for retailers and wholesalers, 70% for construction firms, and 72% for transport and distribution firms. These are also the highest on record.

When firms were asked what pressures they were facing to raise prices, from a list of factors, 92% of manufacturers cited raw materials, 56% cited other overheads (the majority of respondents comments related to energy costs and transport costs), 34% cited pay settlements, and 19% cited finance costs.

When asked what was more of a concern to their business than three months ago, 77% of firms cited inflation which was the highest on record and a rise from 66% in Q4.

The percentage citing interest rates as a concern also rose in the quarter. Nearly 1 in 3 (32%) reported interest rates as a concern, up from 27% in Q4.

CASH FLOW & INVESTMENT
Indicators for both cash flow and investment have shown no sign of recovery since the start of the Covid-19 shutdown.

For firms overall, 28% reported an increase to cash flow, a drop from 31% in Q4. 26% reported a decrease, up from 23% in Q4.

Investment in plant, machinery, or equipment continued to stagnate, with 27% overall reporting an increase, while 58% reported no change, and 15% a decline. This metric remains largely unchanged since Q2 2021.

Suren Thiru, Head of Economics at the British Chambers of Commerce (BCC), said:

"Our latest survey points to a solid first quarter for the UK economy, as the release of pent-up demand following the end of Plan B restrictions and reduced consumer concerns over Omicron helped support activity in the quarter. However, our figures also highlight the significant headwinds facing the UK economy.

"Historically high price pressures suggests that the current inflationary surge will escalate significantly in the coming months. The reversal of the hospitality VAT cut, the higher energy price cap and soaring energy and commodity prices amid Russia's invasion of Ukraine, should lift inflation well above 8% in the near term.

"The continued sluggishness in cash flow is a key concern as it leaves firms more vulnerable to economic shocks, including the damaging impact of soaring energy bills, higher inflation, and tax increases.

"The first quarter may be the high point for the UK economy with activity likely to stall in subsequent quarters as surging inflation, rising energy bills and higher taxes increasingly drags on activity.

Suren Thiru
Head of Economics
British Chambers of Commerce

"Russia's invasion of Ukraine has raised the risk of a renewed economic downturn by aggravating the financial squeeze on businesses and households and disrupting the supply of commodities to key sectors of the UK economy."

Responding to the findings, Director General of the British Chambers of Commerce, Shevaun Haviland, said:

"Our latest survey lays bare the huge financial stress that firms across the country are under.

"The level of inflationary pressures has soared to record levels and we are now truly in uncharted territory. Firms cite cost increases coming at them from all angles, ranging from energy bills to raw material prices and the imminent rise in National Insurance.

"We need to be absolutely clear: this cost of doing business crisis is squeezing firms' finances, driving further increases in prices and directly fuelling the cost-of-living crisis.

"The Spring Statement was a missed opportunity to ensure business have greater resilience to weather the uncertain and volatile times ahead.

"The Government must provide urgent financial support, through the expansion of the energy bills rebate scheme, to include small firms and energy intensive businesses, and he must introduce an SME energy price cap to protect smaller firms from some of the price increases.

"We also urge the Treasury to rethink and postpone the damaging National Insurance increase. A failure to act now will leave businesses with no option but to continue to raise prices - leading to more difficult months to come for both firms and households."

Amanda Beresford
Schofield Sweeney
Chair of the Board

Sandy Needham
West and North Yorkshire Chamber of Commerce
Chief Executive

PRESIDENTS

Victoria Wainwright
Naylor Wintersgill
President
Bradford Chamber of Commerce

Mike Briffett
Clarion Housing Group
President
Leeds Chamber of Commerce

Laurence Beardmore
York Emporium
President
York & North Yorkshire Chamber of Commerce

Bradford Chamber of Commerce

DEVERE HOUSE
VICAR LANE
LITTLE GERMANY
BRADFORD BD1 5AH

Leeds Chamber of Commerce

CARLTON TOWERS
5TH FLOOR
44 ST. PAUL'S STREET
LEEDS LS1 2QB

York & North Yorkshire Chamber of Commerce

INNOVATION CENTRE
YORK SCIENCE PARK
INNOVATION WAY
YORK YO10 5DG

CONTACT US

T 08455 240 240

E info@wnychamber.co.uk

W www.wnychamber.co.uk

@WNYChamber

West & North Yorkshire Chamber of Commerce

IN PARTNERSHIP WITH

Leeds City Region Enterprise Partnership

Working in partnership with the

West Yorkshire Combined Authority