



CALIFORNIA

SMALL BUSINESS

ECONOMIC TRENDS

January 2026



California Small Business Economic Trends

Introduction

No two states are alike, and no state can be perfectly defined by national numbers alone. That is why NFIB is separating out state-specific numbers in our new, semi-annual “State of the States” Small Business Economic Trends (SBET) report. To create statistically meaningful numbers, we pool together data from six monthly surveys, giving summer (April-September) and winter (October-March) datapoints for a handful of the largest states in the union. While the sample sizes for the individual states are small, they help signal the unique challenges and strengths of each state we cover.

California

California is unique. It has by far the largest economy of any U.S. state, with a \$4 trillion GDP that is actually large enough to be the fourth biggest economy in the world, behind Germany and just ahead of Japan. From its signature tech industry in San Francisco to its famous entertainment industry in Hollywood to its massive agriculture sector throughout much of the state, there is a lot going on in California. Add in a regulatory and governance approach that stands out from most other states, and it is no surprise that NFIB’s data reveals significant differentiation for how small businesses are faring in California.

Contextual Data

GDP: \$4.22 trillion (largest)

Most recent per capita income \$ 90,189 (third best)

Unemployment rate at end of period: 5.5% (worst)

California’s enormous economy is a product of its population and prosperity: It has the third-highest per capita income in the country. However, the prosperity is not entirely shared, as it has the highest unemployment rate of all fifty states.

Optimism Index

California’s small businesses are currently faring modestly worse than the U.S. overall, with a Small Business Optimism Index (SBOI) of 94.4 vs 97.9 for the U.S. for Summer 2025 (defined as April-September; see Table 1). The 3.5-point deficit is up from a 1.3-point deficit last period (Winter 2024-2025). Looking back through the past few decades, California has closely paralleled the U.S. optimism index. That’s a contrast to the 70s and 80s, when California was a relatively bright spot compared to the U.S. overall (Figure 1).

Small Business Optimism Index Seasonally Adjusted (1986=100)			
	Current (CA)	Current (US)	*
Optimism Index	99.4	97.9	-3.6

Table 1

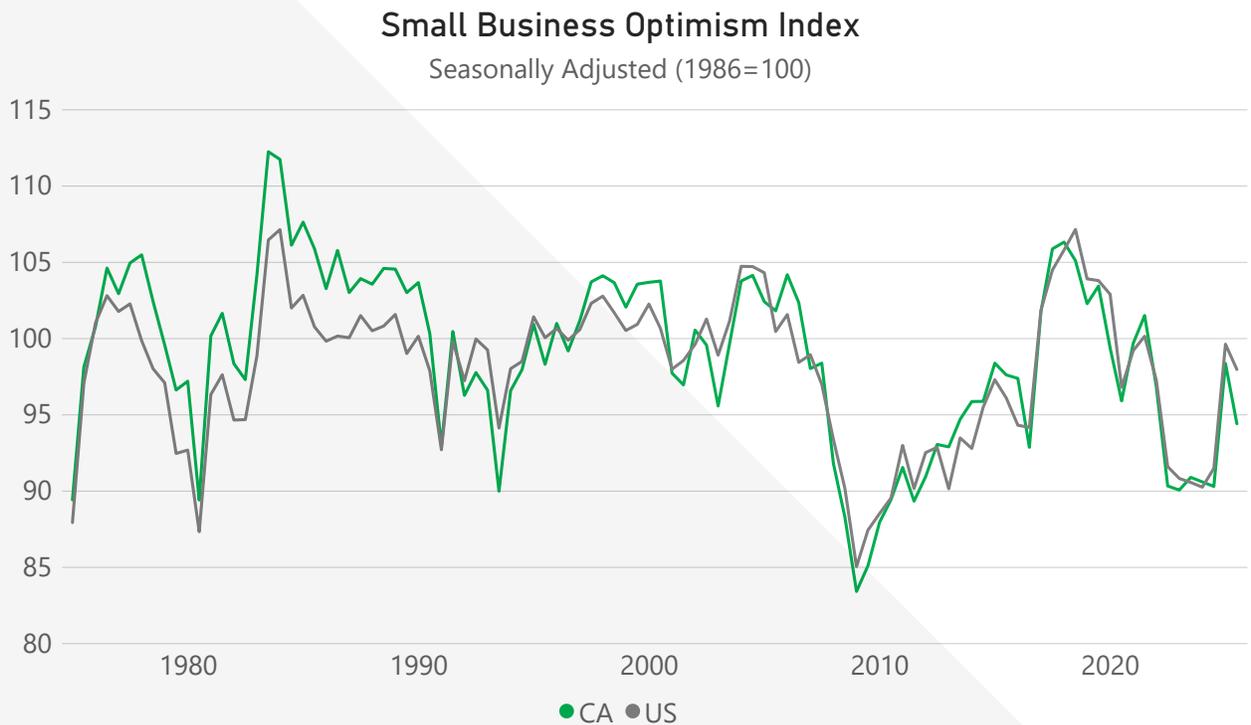


Figure 1

Optimism Index Components			
Component (Seasonally Adjusted)	Current (CA)	Current (US)	*
Current Inventory (Too Low)	-2%	-4%	2
Current Job Openings	28%	33%	-5
Earnings Trends	-26%	-21%	-5
Expect Economy to Improve	14%	25%	-11
Expect Real Sales Higher	1%	5%	-4
Expected Credit Conditions	-7%	-5%	-2
Now a Good Time to Expand	9%	12%	-3
Plans to Increase Employment	8%	14%	-6
Plans to Increase Inventories	-3%	0%	-3
Plans to Make Capital Outlays	11%	13%	-2

Table 2

Digging into the details of the Optimism Index components, we see that negative expectations about the overall economy are the heaviest weight on California, relative to the national average. Plans to increase employment are the second weakest category relative to the U.S., which is disappointing in light of California's relatively high unemployment. The lone bright spot is inventory, where California's conditions are modestly better.

Overall Business Health

This year, NFIB added a question about small business overall health to more directly assess their current condition. This can be seen as a complementary second measure to the optimism index, which is comprehensive but includes several broader components about the overall economy, plans, and expectations.

Unfortunately, this alternative pulse check confirms the story of California small businesses faring worse than the rest of the country. The percentage of small businesses doing “excellent” is substantially smaller in CA, and the percentage of those whose business health is “good” is also down (Table 3). By contrast, the percentages doing only “fair” or “poor” are higher. Thankfully, it is the “fair” category that soaks up most of the excess (with 7 percent more than the national average vs. 2 percent more for “poor”).

Overall Health of Business			
Rating	Current (CA)	Current (US)	*
Excellent	6%	12%	-6
Good	50%	52%	-2
Fair	37%	30%	7
Poor	6%	4%	2

Table 3

Single Most Important Problem

Why might California small businesses be doing worse than the national average? One useful datapoint is the survey question that asks businesses to clarify their single most important problem (SMIP). This question reveals a striking contrast between California and the national average.

Most categories in the single most important problem list are quite similar between California and the U.S. overall, with one major exception: Government regulation (Table 4). While government regulation is tied for fifth most important nationally, it is by far the greatest problem in California. Numerically, it is 16 points higher in California than in the U.S. Clearly, regulations are an enormous thorn in the side of California’s small businesses, and one of the best guesses as to why they are struggling as compared to small businesses in other states.

The second biggest difference between California and the U.S. is labor quality, with five percentage points fewer of that state’s small businesses identifying that as their top issue than nationwide. While some of that contrast may be due to regulations dominating attention, other contributing factors likely include the labor market (highest unemployment rate) and amenity value (e.g., weather and natural beauty) attracting workers.

Single Most Important Problem - CA			
Single Most Important Problem	Current (CA)	Current (US)	*
Taxes	15%	18%	-3
Quality of Labor	15%	20%	-5
Poor Sales	12%	11%	1
Inflation	10%	13%	-3
Gov. Regulation	25%	9%	16
Fin. & Interest Rates	2%	4%	-2
Cost/Avail. of Insurance	9%	9%	0
Cost of Labor	9%	9%	0
Comp. from Large Bus.	3%	6%	-3

Table 4

A year-on-year comparison adds color to what is happening within California (Table 5). The biggest change is the reduction in inflation as the top problem. Inflation fell from number one, with 20% of the responses, to number five, with 10%. Government regulation has seen the biggest uptick (7 percentage points), followed by Taxes and Cost/Availability of Insurance (4 percentage points).

This raises an important contextual question surrounding government regulation: Has regulation worsened in the past year? It is possible, but it is also possible that its increase could be a function of improving inflation. In the latter scenario, government regulation was the number two issue behind inflation. As inflation calmed, government regulation defaulted to number one. Either way, the data is clear that government regulation is a major problem for small businesses in California.

Single Most Important Problem - CA			
Single Most Important Problem	Current	One Year Ago	*
Taxes	15%	11%	4
Quality of Labor	15%	14%	1
Poor Sales	12%	12%	0
Inflation	10%	20%	-10
Gov. Regulation	25%	18%	7
Fin. & Interest Rates	2%	4%	-2
Cost/Avail. of Insurance	9%	5%	4
Cost of Labor	9%	12%	-3
Comp. from Large Bus.	3%	4%	-1

Table 5

The next three figures show all the single most important categories over time, with three categories on each, allowing the information to be presented more clearly. The first of these (Figure 2) is an illustration of the issues most affected by the business cycle (boom times and recessions). In downturns, businesses struggle most with poor sales, as seen in the spikes during the early 1990s and the Great Recession in 2008. Labor difficulties are largely the inverse of sales, only cropping up significantly in good times. They are down in the aforementioned recession periods, and up in times like the post-COVID recovery, when the economy was overheated.

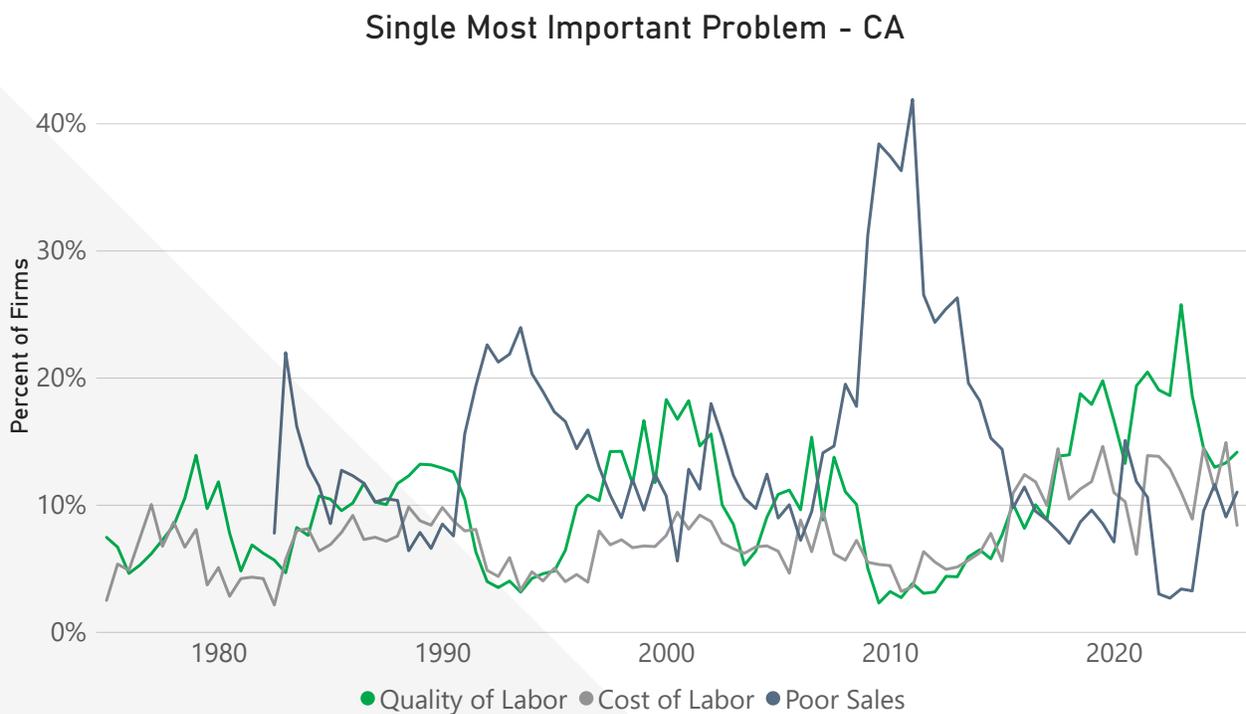


Figure 2

Figure 3 shows taxes, regulations, and competition from large businesses. In contrast to the issues in Figure 2, these are among the most consistently problematic for small business in either a good or bad economy. Regulations have fluctuated more than the other two, and have been the number one overall issue in California for long stretches, including the early 90s and late 2010s. Note, though, that this graph has a more compact scale than the other two SMIP graphs, topping out at 30% rather than 40%, which underscores that these are consistent but not extreme issues.

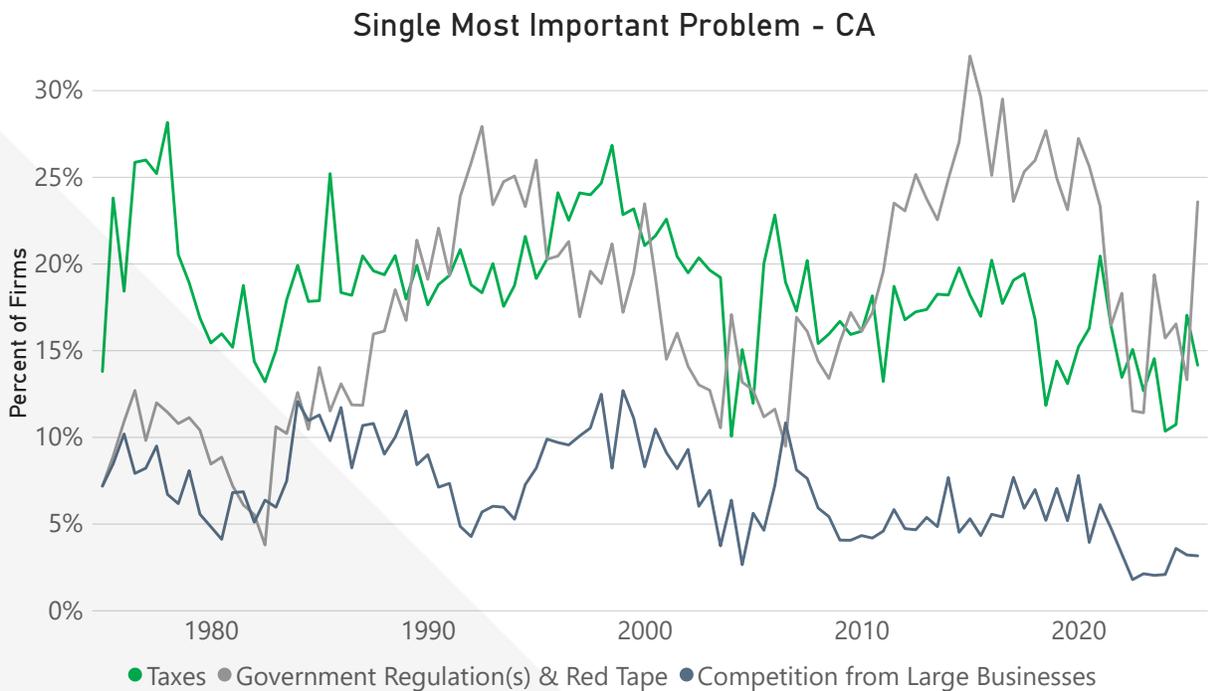


Figure 3

Figure 4 shows inflation, financing/interest rates, and insurance. For the most part, these are relatively background issues, typically under 10%. However, occasionally they are serious. Inflation has two major spikes. The first spike occurred in the late 1970s and was followed by the lone spike in financing/interest rates after the Federal Reserve dramatically raised rates to fight inflation. The second spike is the recent post-COVID inflation era, which also saw a follow-on effect of financing/interest rates, though thankfully much smaller. Insurance has one major spike in the mid-2000s.

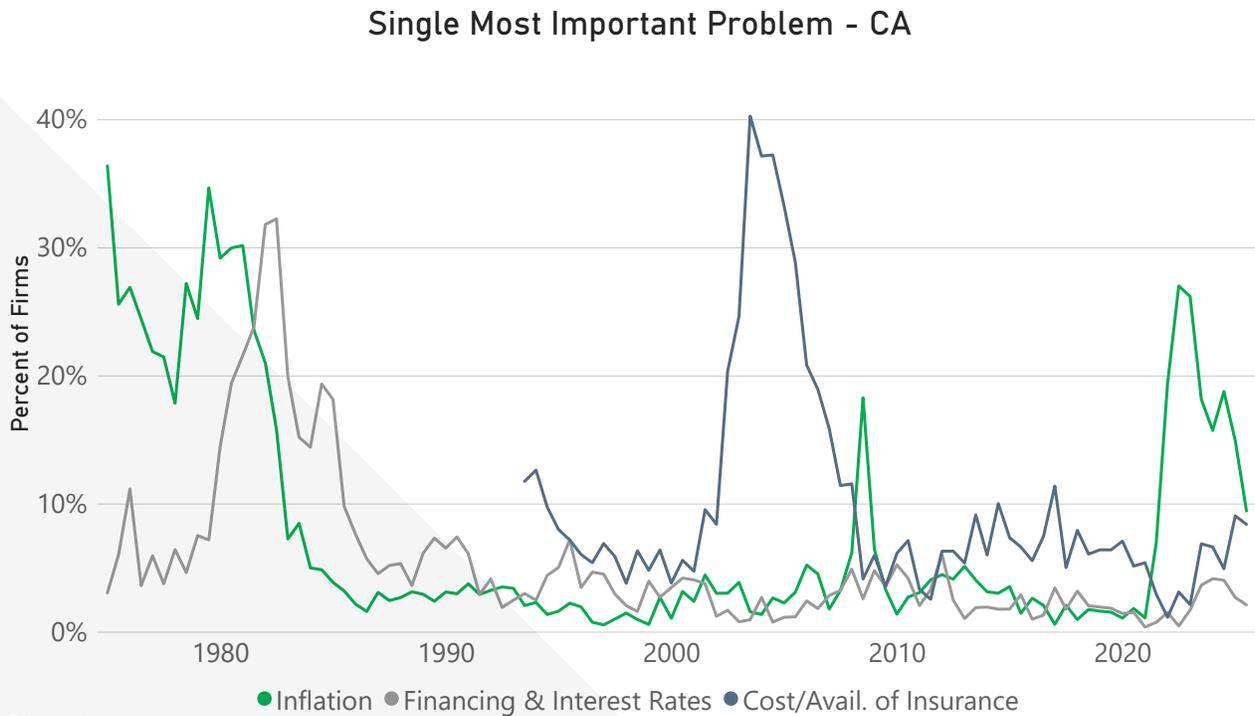


Figure 4

Uncertainty Index

A final metric that can help inform assessment of California’s small business environment is NFIB’s Uncertainty Index, which is calculated as a function of business owners responding “Don’t know” or “Uncertain” to six questions. This is a bit of a “null result” in that California is very close to the national average. In other words, uncertainty is not a contributor to California’s disappointing underperformance on the SBOI and business health (Figure 5).

Not to be lost in the state vs. national comparison is the high level of current uncertainty. The monthly SBET report reveals more nuance about how uncertainty has evolved over the past year, but this six-month summer season average highlights how severe uncertainty has been recently compared to the 50+ year history of the index.

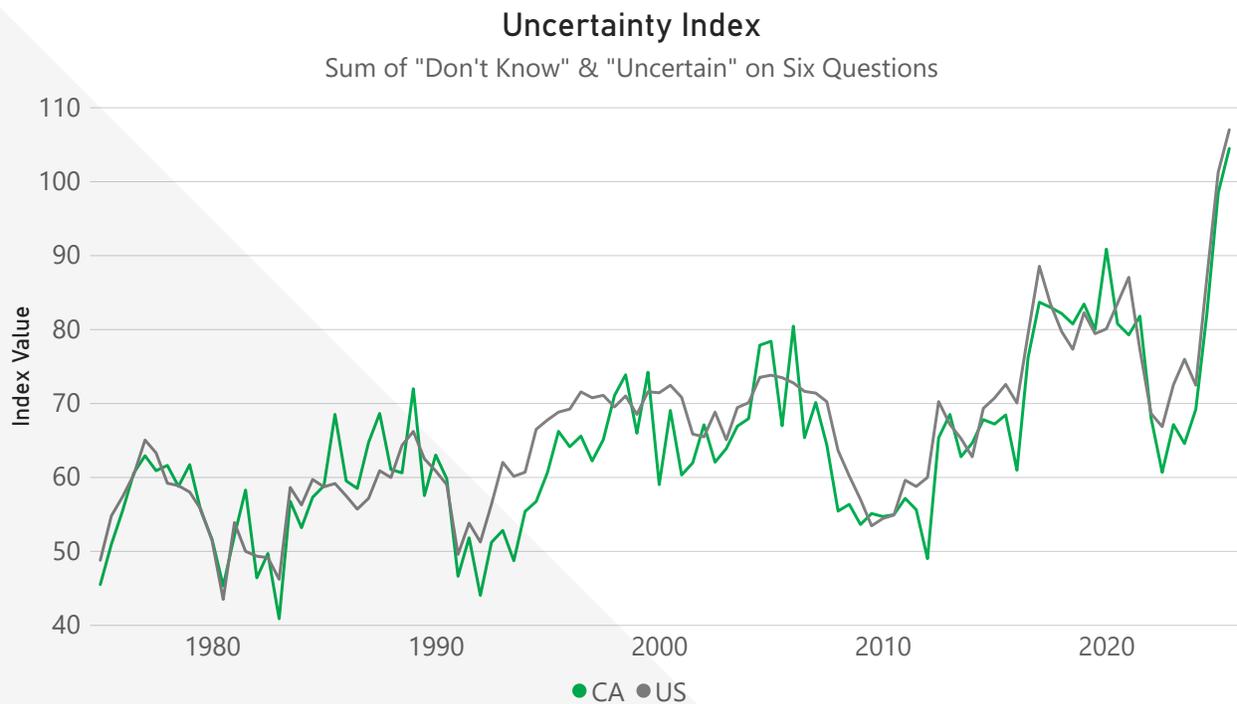


Figure 5

Conclusion

California is a special state with an enormous economy that is both high-income and comparatively high in unemployment. Unfortunately, this new data breakout reveals that small businesses are doing worse in California than they are in the rest of the country. Additional survey questions show that government regulation is possibly causing the underperformance, as it is a major differentiator in the experience of California small businesses compared to those in the rest of the country.

Methodology

The data for this report is sourced from NFIB's Small Business Economic Trends Survey, which polls a random sample of NFIB members. The survey was run quarterly from 1973 to 1985 and monthly from 1986 through the present. As this is a national survey, the number of responses from an individual state is not necessarily statistically meaningful in a given month. To create this new state-specific report, we pooled data from multiple surveys into a weighted average for the given season (Apr-Sep for summer and Oct-Mar for winter). In the monthly era, that means six months of data, and in the quarterly era, that means two quarters of data. For summer 2025, California had a total of 191 responses.