



CALIFORNIA

SMALL BUSINESS

ECONOMIC TRENDS

Winter 2026



Introduction

Each month, NFIB publishes the Small Business Economic Trends (SBET) report, which tracks economic activity among small businesses in the U.S. The survey measures changes in sales, employment, investment, financing, and economic sentiment. While this is a useful country-wide snapshot, no state can be defined by national numbers alone. Therefore, the NFIB Research Center has produced state-

specific numbers in our new, semi-annual "State of the States" SBET report for some of the largest states in the U.S. To create statistically meaningful numbers, responses from six monthly surveys are pooled together, creating summer (April-September) and winter (October-March) datapoints. These reports help signal the unique challenges and strengths of each state covered.



CALIFORNIA

Our nation's top state by population and GDP, California is of utmost importance to the country. It is a leader in culture thanks to the might of Hollywood and a leader in tech—especially the AI revolution—thanks to Silicon Valley. It feeds the nation with the output of the Central Valley, and it holds tremendous natural beauty from iconic beaches to picturesque deserts to snowy and serene mountains. And yet, as the data shows here, it is a state that also has its share of challenges.

Contextual Data

| | |
|---------------------------|------------------------------------|
| GDP: | \$4.34 Trillion (1 st) |
| Per capita income: | \$92,800 (3 rd) |
| Unemployment rate: | 5.4% (50 th) |



4.3 million
small businesses



7.6 million
small business employees

With a GDP large enough to rank fifth in the world—nearly tied for fourth with Japan—California is an economic powerhouse. It's also one of the wealthiest states, with the third highest per capita income in the country. However, California also has the highest unemployment rate in the nation, suggesting that opportunity is not as well spread out as in other states.



Optimism Index

California's Small Business Optimism Index is a double-edged sword in the latest data (winter 2025-25, Oct-Mar). The Index is up over the previous period (summer 2025), but still comfortably below the rest of the country (Fig. 1). This extends a two-year streak of underperformance for California compared to the U.S. overall. Currently, the gap is 1.3 points (97.2 for CA vs. 98.5 for the U.S.), down from a 3.4-point gap last period. Slightly worsening the comparison is that the historical average for the national index is 98.0, leaving the U.S. above average and California below.

This marks the fourth consecutive period of underperformance for California, with each deficit over one point. While it is positive that the current deficit is smaller than last period, it is essentially the exact same as both two and three periods ago. That colors the interpretation of the current result, making it harder to believe that conditions are improving and more likely that the current modest but meaningful deficit is the continuing status quo.

Small Business Optimism Index
Seasonally Adjusted (1986=100)



Figure 1



Optimism Index (cont.)

Peeking under the hood at the components of the Optimism Index adds color to California's weakness. Two categories have positive gaps between California and the U.S., while the other eight have negative ones (though most of those negative ones are small). On the positive side, more California small business owners report positive sales expectations and plans to add workers. The latter is of particular note due to California's high unemployment rate.

On the negative side, more California small businesses experienced lower earnings

(profits), with a 12-point deficit. Also, in an unfortunate counterbalance to the positivity in plans to increase employment, California businesses report fewer job openings. The rest of the gaps are 3 points or less, which is to say, small enough to not worry about. However, among the six components with minimal change, it is notable that every small gap was negative. The fact that all the small gaps point in the same direction suggests broad-based difficulties in the small business environment in California as compared to the U.S. overall.

Optimism Index Components

| Component (Seasonally Adjusted) | Current (CA) | Current (U.S.) | Difference (Rounded) |
|---------------------------------|--------------|----------------|----------------------|
| Plans to Increase Employment | 20.8 | 15.4 | 5 |
| Current Openings | 27.3 | 32.0 | -5 |
| Expected Credit Conditions | -5.6 | -4.2 | -1 |
| Expect Economy to Improve | 18.0 | 18.9 | -1 |
| Expect Real Sales Higher | 16.9 | 10.6 | 6 |
| Earnings Trends | -33.8 | -21.4 | -12 |
| Current Inventory (Too Low) | -3.7 | -2.6 | -1 |
| Plans to Increase Inventory | -3.1 | -2.4 | -1 |
| Now a Good Time to Expand | 10.4 | 13.2 | -3 |
| Plans to Make Capital Outlays | 16.9 | 19.4 | -2 |

Table 1

Business Health

In early 2025, NFIB introduced a question to directly measure the health of small businesses. This serves a concrete, point-in-time complement to the more comprehensive and forward-looking Optimism Index.

Unfortunately, the additional data worsens the picture for small businesses in California. There are major negative differences between how California small businesses report their

health and the U.S. averages (Fig. 2). Far fewer California owners say their small businesses are in excellent or good health, and many more report that their small businesses are in fair or poor health. The deficits observed for this period (Oct. 2025-Mar. 2026) are almost the exact same as the previous period (Apr.-Sep. 2025), so the underperformance is consistent.

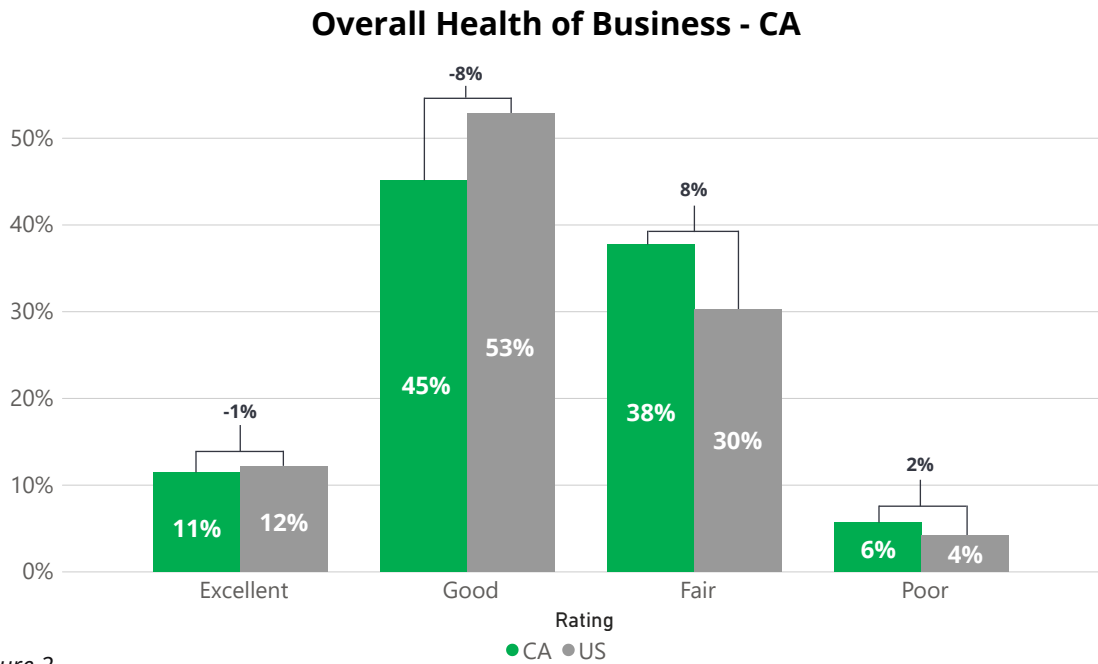


Figure 2

“ There are major negative differences between how California small businesses report their health and the U.S. averages. ”



Employment Index

This winter, NFIB launched a new index designed to measure the pulse of the small business labor market. The new Small Business Employment Index, like the Optimism Index, combines multiple components to give a single comprehensive indication of health. For the Employment Index, the historical average is 100, and higher numbers indicate a tighter labor market where it is harder to find and keep employees, and lower numbers indicate a slack labor market where employees are more readily available.

For California, the Employment Index is a bright spot. Right now, the Index in California is 102.8, 1.2 points higher than the national

average of 101.6 (Fig. 3). Looking beneath the headline number reveals that the gap is driven by the forward-looking components about expected hiring and compensation plans.

Looking back through the history of the Index, we see that California has had a higher Employment Index for most of the past decade. Interestingly though, last period (Apr.-Mar. 2025) saw a lower Index for California than the U.S. overall. Farther back in history, there was an additional period of overperformance for California in the 2000s, and periods of underperformance during the Great Recession and in the first half of the 1990s.

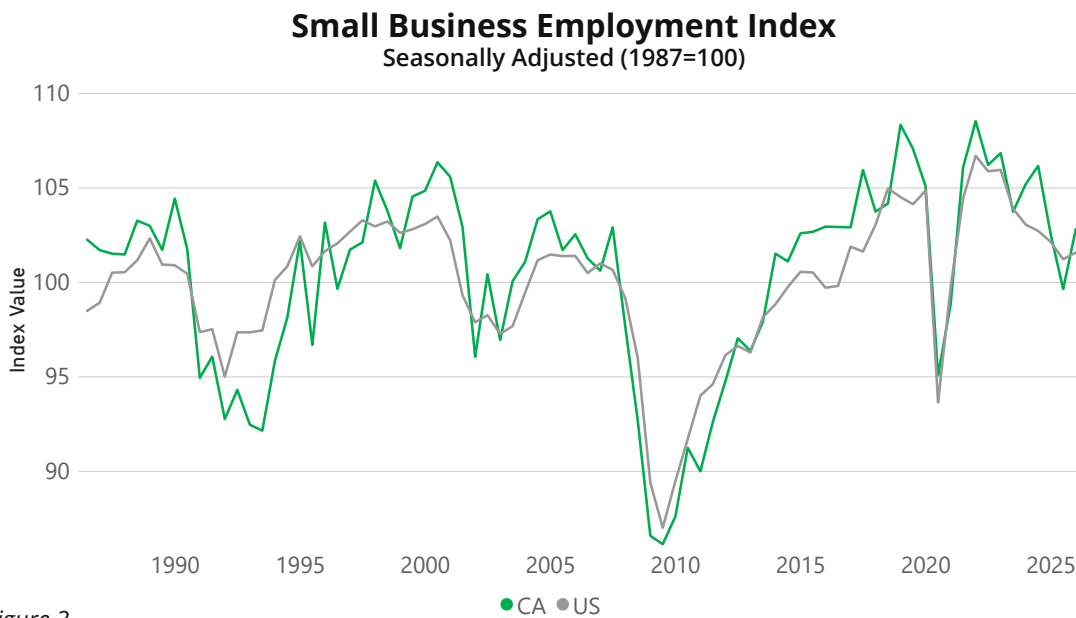


Figure 3

“ For California, the Employment Index is a bright spot. Right now, the Index in California is 102.8, 1.2 points higher than the national average of 101.6. ”

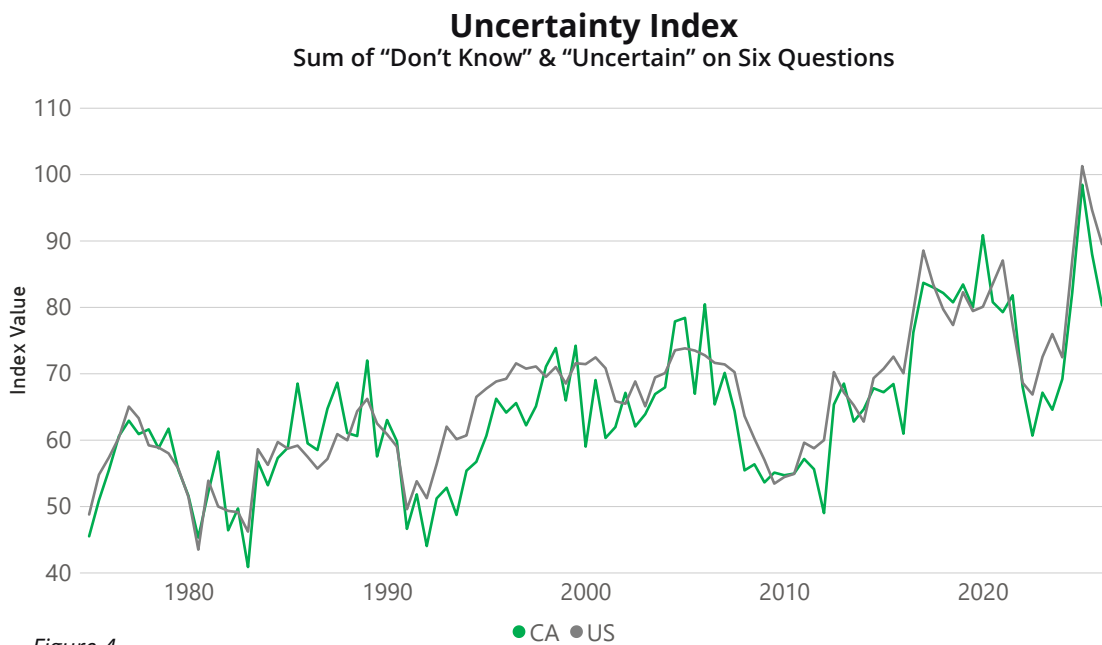
? Uncertainty Index

In both California and the country as a whole, the past 18 months have been an era of historically high uncertainty. Thankfully, that uncertainty does appear to be subsiding—though, for the U.S., the current level is still higher than at any time before the last year and a half.

For California, the Uncertainty Index is falling faster than for the U.S. overall (Fig. 4). Now, that is not automatically good news: NFIB's Uncertainty Index is somewhat unique in that it is a true 'midpoint' index where respondents are on the fence between good and bad (as opposed to other uncertainty indexes, which are often volatility indexes). That means that improvement in the Uncertainty Index can be

a double-edged sword. You can see respondents hopping off the fence in a positive direction (great!), or you can see them hopping off the fence in a negative direction (not so great).

So, what are we actually seeing for California? The newest data shows positive movement in both the Optimism and Uncertainty Indexes. In the change from the previous period to the current one, the Optimism Index increased and the Uncertainty Index decreased. In other words, respondents hopped off the fence from 'uncertain' to 'good.' That makes falling uncertainty a clear bright spot for California (though uncertainty does remain uncomfortably high).





Top Issues

So far, we have a question and three indexes that create a nice image of general conditions for small businesses in California. What that excludes is their day-to-day pain points. What are the most important problems for California small business owners?

For California, the standout issue by far is government regulation. Not only is it the number one issue in California by a comfortable margin (over poor sales), but it is also much, much worse than for businesses in the U.S. overall. More than 2.5 times as many California respondents identified regulation as their top issue as U.S. respondents (21 vs. 8).

| Single Most Important Problem | Current (CA) | Current (U.S.) | Difference (Rounded) |
|-----------------------------------|--------------|----------------|----------------------|
| Competition from Big Business | 2.8 | 5.7 | -3 |
| Labor Cost | 10.7 | 8.5 | 2 |
| Financing & Interest Rates | 1.1 | 2.9 | -2 |
| Government Regulation | 20.9 | 8.2 | 13 |
| Inflation | 11.3 | 12.6 | -1 |
| Labor Quality | 13.0 | 19.9 | -7 |
| Taxes | 9.0 | 17.3 | -8 |
| Poor Sales | 15.3 | 9.8 | 5 |
| Cost or Availability of Insurance | 10.7 | 9.9 | 1 |

Table 2

The other major pain point in California was poor sales, which was the second overall issue and 5 points worse than in the U.S. overall. This issue is particularly disappointing to see with any prominence, as it is one that tends to be low in general but is high during a recession. California remains far from recession levels of poor sales, but the level does reflect outsized economic challenges.

Two issues had meaningfully less frequency for California: taxes and labor quality. Seeing taxes come in low is unexpected given California’s high taxes. However, one note

of perspective is that respondents can only choose one single top issue, so percentage totals add up to 100. That structure can hide the severity of certain issues. To illustrate, imagine that between now and next period, taxes stay the same, but inflation majorly worsens. Many people who identified taxes as their top issue today would likely change their answer to “Inflation” next period, not because taxes got better, but because inflation got worse. In California, taxes might be reading lower right now in part because regulation is such a severe issue.

Conclusion

California is a beautiful, powerful, and high-income state. However, a look at the small business data reveals significant challenges. Optimism is lower than the U.S. overall, and small business health is much lower too. When you search for a reason why, the data on issues reveals a clear hypothesis: regulations. Government regulation is a massively larger problem for California small businesses than for small businesses elsewhere. That said, it's

not all doom-and-gloom for California small businesses: In particular, certain employment metrics indicate strong labor demand, and uncertainty is lower than in the U.S. overall. Still, despite a few positive points, the main conclusion is that the California small business community is struggling compared to the rest of the country, and government regulation is the best guess why.



Methodology:

The data for this report is sourced from our Small Business Economic Trends Survey, which polls a random sample of NFIB members. The survey ran 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 are 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 a given season (Apr-Sep for summer and Oct-Mar for winter). For Winter 2025-26, California had 177 total responses.