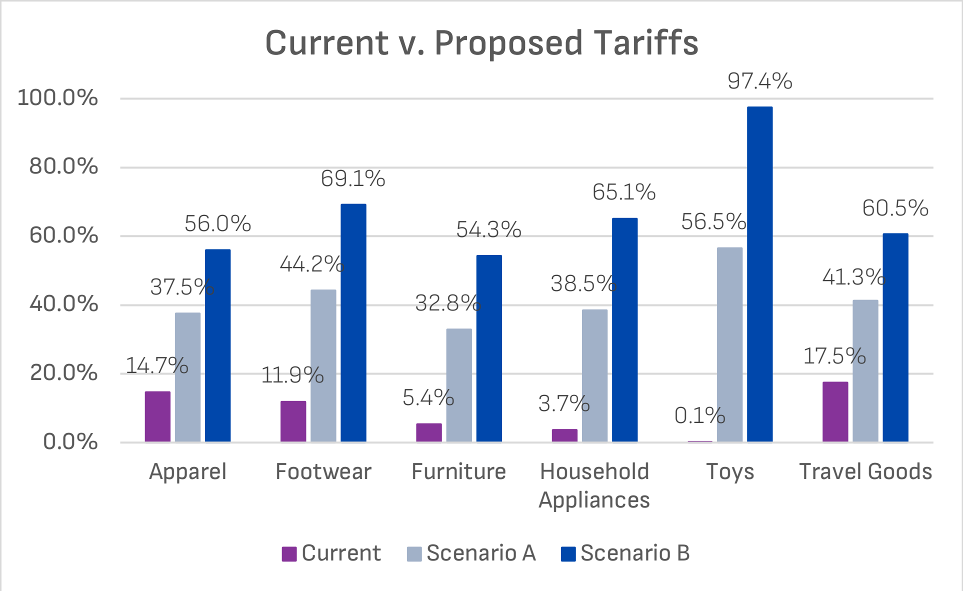
Effects of Proposed Trump Tariffs

In light of President-elect Donald Trump's tariff proposals, RetailStat has conducted the following analysis to outline the potential implications for the retail sector.

The Basics

1. Tariffs of 10% to 20% on all U.S. imports, 60% to 100% on all Chinese imports, and up to 25% on imports from Mexico and Canada
2. Electronics, apparel, toys, grocery items, furniture, and appliances to be most affected
3. Similar tariff initiatives under the prior Trump administration in 2018 led to a 25% tariff on many Chinese imports, significantly impacting prices

The premise behind the proposal is that increased costs for manufacturing abroad may incentivize greater investment in U.S.-based manufacturing, though the implications for pricing, supply chains and consumer behavior are complex.

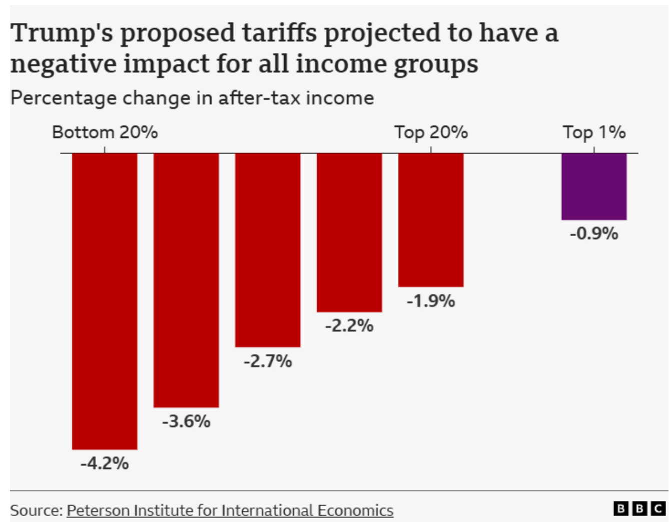


The chart above displays the current tariffs on six industries, Apparel, Footwear, Furniture, Household Appliances, Toys and Travel Goods, as well as two scenarios. Scenario A displays the effect of 10% tariffs on all U.S. imports and the additional 60% tariff on all Chinese imports, displaying a 70% tariff on Chinese-made goods. Scenario B shows the effect of 20% tariffs and 100% tariffs on Chinese imports, indicating a total of 120% tariffs on Chinese-made goods.

Prices and Cost of Living

While the specifics of any potential tariffs remain uncertain, and their effects would vary based on their design and whether certain product categories are exempt, many retailers have already signaled that the increased import costs due to tariffs would be transferred to consumers, ultimately leading to a rise in the prices of goods. In 2021, the U.S. International Trade Commission (ITC) estimated that the Trump administration tariffs during 2018 and 2019 increased prices for imported and domestically manufactured goods by between 1.7% and 7.1% across the ten most affected sectors, including apparel, automobile parts, furniture and electronic components. Since then, the Biden administration has maintained Trump's tariffs and even increased tariffs on Chinese electric vehicles (EVs), clean-energy equipment and semiconductors.

Similarly, while higher prices are expected to likely lead to a drop in consumer demand for certain products, alternative suppliers may quickly step in to fill the gap. According to the Yale Budget Lab, with Trump's proposed tariffs, consumer prices would rise by 1.4% to 5.1% (cost per household of $1,900 to $7,600). The table shows that the proposed tariffs are expected to negatively impact purchasing power across all income groups. For value-based retailers that target low prices, this could be especially problematic. However, retailers are already working to address this: Walmart CFO John David Rainey recently commented, "Our model is everyday low prices. But there probably will be cases where prices will go up for consumers." The company has reported that two-thirds of merchandise sold in Walmart U.S. and 93 percent of merchandise sold in Walmart Mexico is 'made, grown or assembled domestically,' which stemmed from a 2021 commitment to a $350 billion effort to invest in home-grown products. Rainey added, "Tariffs are inflationary for customers, so we want to work with suppliers and with our private brand assortment to try to bring down prices'." Similarly, Dollar Tree's COO, Mike Creedon, advised, "We know that tariffs have been a big topic recently. In the event of any meaningful change to the current tariff regime, we have long-standing contingency plans to diversify our supply chain in a timely and cost-effective manner. We also have the flexibility to adjust product specs and price points to address any changes in the market."



Most Affected Sectors

Electronics

- Tariff Impact: A potential 60% to 100% tariff on Chinese goods could triple costs for EV batteries and increase prices for PCs and smartphones.
- Retailer Response: Best Buy's CEO Corie Barry stated, *"Margins are small in this industry, so most of the cost increase will pass directly to the consumer."*

	Increase in Consumer Price	Value of Lost Consumer Spending Power Due to Higher Prices	Average Retail Cost Increase*
Laptops and Tablets	+45.0%	$32.5 billion	+$357, laptops; +$201, tablets
Smartphones	+25.8%	$25.6 billion	+$213
Connected Devices	+10.2%	$7.9 billion	+$5 to +$37
Video Game Consoles	+39.9%	$6.5 billion	+$246
Computer Accessories	+10.9%	$5.2 billion	+$25, printers
Monitors	+31.2%	$5.0 billion	+$109
Desktop Computers	+6.2%	$3.0 billion	+74
Televisions	+9.0%	$1.5 billion	+$48
Lithium-Ion Batteries	+12.1%	$1.5 billion	Up to +$11
Speakers & Headphones	+10.9%	$1.1 billion	+$29, speakers; +$35, headphones

**Assuming full pass-through of tariff costs to retail buyers.*

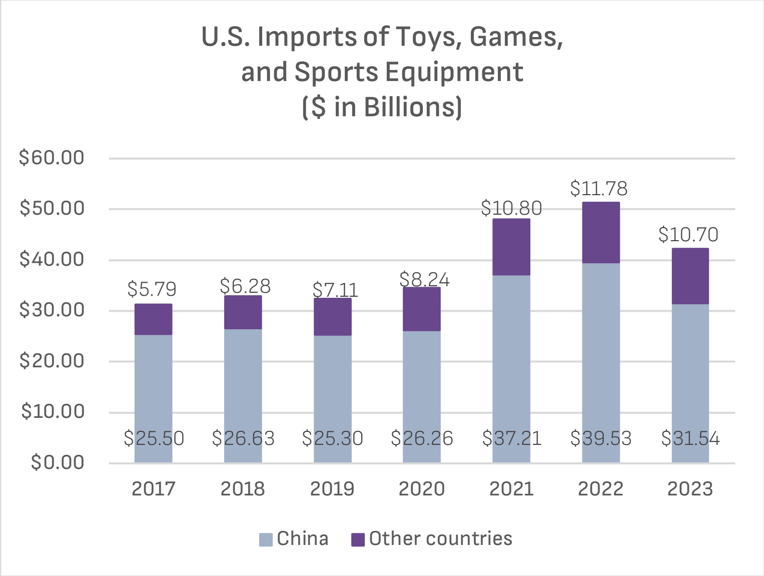
Apparel

- **Dependency on Imports:** Over 80% of clothing in the U.S. is imported. A $50 shirt could rise to $60 or higher under the proposed tariffs.

- **Retailer Concerns:** Executives at Shoe Carnival and others are closely monitoring tariff developments and planning adjustments to product specs and pricing.

Toys

- **Heavy Dependency on China:** With over 90% of sales to U.S. consumers in 2017 coming from China, U.S. toymakers will be majorly affected by the proposed 60% to 100% tariffs on Chinese imports.
- **Impact on Prices:** The NRF found that prices for toys could rise as much as 55%, amounting to $14 billion in lost U.S. consumer spending power.
- **Retailer Response:** Retailers like Hasbro have indicated ongoing negotiations with suppliers to lower prices or redesign toys to make them cheaper to build ahead of potential new tariffs.



Household Items

- **Impact on Prices:** Household items, including furniture and appliances, are set to rise 6% to 10% should retailers pass all costs to consumers, per the U.S. Bureau of Labor Statistics.
- **Current/Future Tariffs:** Current tariffs on furniture are at an average of 5.4%. However, should President-elect Trump's tariffs go into effect, furniture tariffs would rise to between 33% and 54%, while appliances would increase 19% to 31%.

Grocery

- **Less Dependent on Imports:** Grocery could fare well compared to other sectors, as only 17% of the total U.S. grocery market is imported.
- **Tariff Impact:** The U.S. relies heavily on produce from foreign countries, with imports representing roughly 60% of fresh fruit in 2021 (vs. 50% in 2013); thus, depending on how tariffs are implemented, the price at the register could noticeably change.

Home Improvement

- **Retailer Response:** Executives at both Home Depot and Lowe's indicated confidence in being able to address any issues that arise from the proposed tariffs. Previously, following the 2018 Trump tariffs, Lowe's diversified its supply chains, although roughly 40% of products remain sourced from China, which will add additional costs.

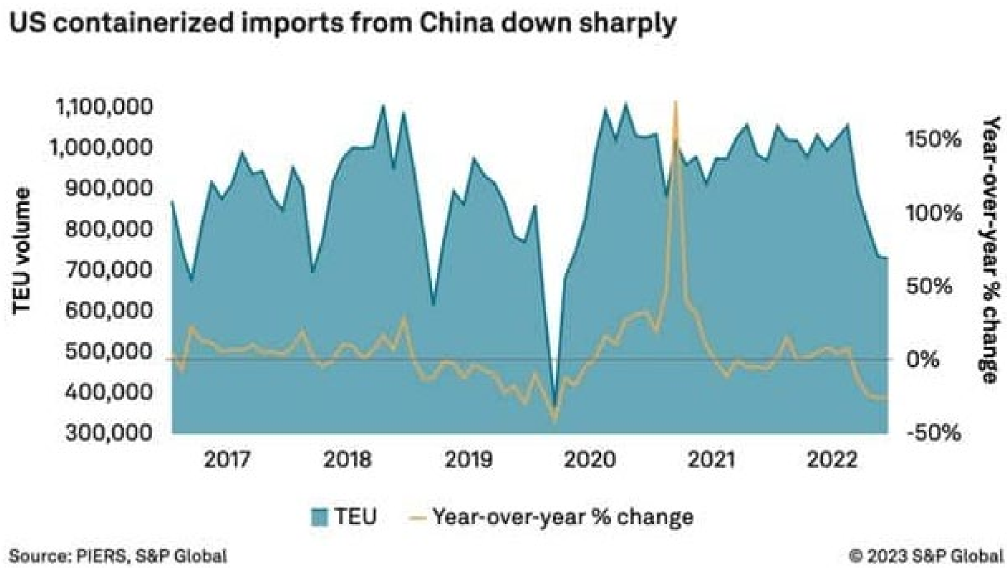
Moreover, consumers in some states could feel the impact more than others. Because of its geographic West Coast ports and shared border with Mexico, California imports the most from China and Mexico; during 2023, China and Mexico accounted for over 40% of California's imports. Though raising tariffs would impact consumers across the board, we would infer the impact on the cost of living would be the most significant for Californians.

Supply Chain and China

Since consumers balk toward higher prices, tariffs will influence supply chain reengineering as manufacturers and retailers find alternative sourcing methods. Larger retailers and manufacturers are likely to win in this scenario as they will both have the resources to bear some of the extra costs associated with importing goods in the interim while also having the resources to invest in new supply chains.

To mitigate the Trump administration's 2018 tariffs, U.S. companies shifted their supply chain away from China to countries like Vietnam, Mexico, India and other Southeast Asian countries. For example, Apple shifted some of its production to Vietnam and India, especially for products like Airpods, iPads and iPhones. Google and Microsoft also increased production in Vietnam and Thailand for hardware products, including Google Nest and Surface devices. Apparel companies such as Adidas and Nike accelerated further moves to Vietnam and Indonesia, which are already key manufacturing hubs. Following the tariffs, many global economies, including the U.S. and EU, adopted the China-Plus-One strategy, which involves companies avoiding sole investments in China and diversifying their supply chain to alternative countries. While the U.S. looked to reduce its reliance on China for production, some U.S. companies that shifted production to other countries also faced higher costs and inefficiencies as firms had to adapt to new regulations, labor costs and logistical challenges.

Though tariff discussions have not been narrowed down to any specific country, the potentially sizeable increase in tariffs on Chinese goods is worth noting. In 2023, the U.S. imported $426.90 billion in goods from China (accounting for roughly 14% of total U.S. imports that year). According to Oxford Economics, a 60% tariff on all Chinese imports would reduce trade with the U.S. by over 70%, bringing China's total share to 4% of total U.S. imports, down from approximately 14% in 2023. On the other hand, the U.S. only exported $147.80 billion in goods to China, down from $154.10 billion in 2022. According to PIERS, S&P Global analysis, Chinese-made goods accounted for 35.1% of U.S. imports of apparel and accessories in 2022, down from 37.1% in 2021 and the peak of 44.2% in 2018. Though near-shoring and supply chain reengineering is nothing new, we suspect efforts would be doubled, assuming the tariffs are implemented. Williams Sonoma shared similarly, noting that it is prepared to reduce its exposure to China if tariffs increase from current levels. Executives also noted they've mapped out a category-by-category plan to reduce their reliance on China depending on the outcome. Williams Sonoma added that China-sourced goods currently comprise about 25% of their mix, compared to 50% over recent years. Like other retailers, executives said they could move some operations to other countries and frontload some goods. "I'm sure the vendors will pay some, and there may be some that the customers absorb as well."



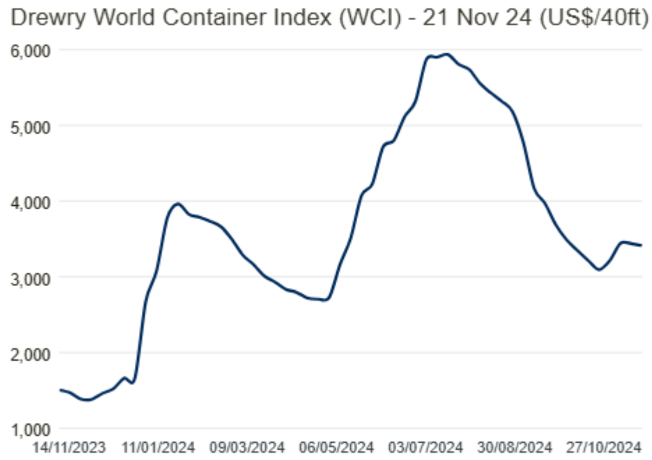
Counter Tariffs

Another consideration is the risk of retaliation by other foreign countries by imposing their own tariffs on U.S. imports. Historically, this has been the case; for example, following the March 2018 tariffs on Chinese steel and aluminum, China retaliated with 25% counter-tariffs, affecting $2.40 billion of U.S. products, including soy, corn, wheat, pork and beef. As a result, U.S. exporters slashed prices to remain competitive with other countries China turned to for those commodities. The EU also retaliated with counter-tariffs, which affected €2.80 billion worth of U.S. imports. Similarly, retaliation from countries like Taiwan could greatly impact the semiconductor industry, thus affecting large U.S. companies such as Apple, Nvidia, Qualcomm and Microsoft, which rely heavily on Taiwan's electronic components; they are vital to their overall supply chain.

Impact on Shipping

Should President-elect Donald Trump's proposed tariffs go into place, they will likely impact overall international trade, leading to less demand for shipping services in 2025. Since the pandemic, demand for shipping services has remained elevated, and freight rate increases have already occurred due to rebel attacks in the Red Sea. The Drewry's World Container Index (WCI) has fallen 1% to $3,413 per 40 ft container as of November 21, 2024, 67% lower than the pandemic peak of $10,377. However, the WCI remains 140% higher than the 2019 pre-pandemic average of $1,420, indicating the elevated demand for shipping services caused by post-pandemic growth.

Demand for shipping services may rise soon as many U.S. retailers look to front-load inventory ahead of potential rising tariffs and port strikes in the upcoming months. However, risks are associated with restocking inventory ahead of time. Retailers' front-loading inventory will bear more risk, some more than others, depending on their current inventory levels and the mix of products they import ahead of schedule. Conversely, those with a more diversified and flexible inventory mix might manage better than others with narrower product focuses. For example, TJX has indicated that the influx of goods brought in early by vendors and manufacturers could result in a surplus, potentially allowing TJX to secure inventory at favorable prices.



Conclusion

As tariffs are proposed to boost U.S. job creation, it is reasonable to expect that final policies may target industries and sectors where manufacturing and job growth can be realized quickly. However, without a well-thought-out strategy, tariffs could result in higher prices for goods, posing a significant challenge for consumers already contending with inflation pressures.

Although this may not be the tariff proposals' primary aim, the specifics remain at the early stages of political debate. In anticipation of potential tariff increases, some retailers may choose to front-load inventory to cushion immediate impacts. While this approach can help manage short-term risks, it may also create logistical complexities.

As the January 2025 administration transition approaches, this issue has quickly become a priority for retailers. They must account for potential policy shifts when setting financial targets for the coming year, as these could affect consumer spending and operational costs. Strategies such as assessing exposure to high-risk product categories, diversifying supplier relationships in regions with lower tariffs and maintaining transparent pricing could help retailers adapt effectively.

As the new administration takes shape, further details on proposed policies are expected, including changes to corporate tax rates, potential extensions of the 2017 individual tax cuts and discussions on repealing taxes on Social Security benefits. These factors will be crucial in shaping the economic landscape for retailers and consumers alike.

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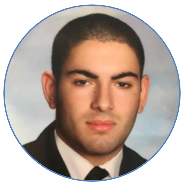

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