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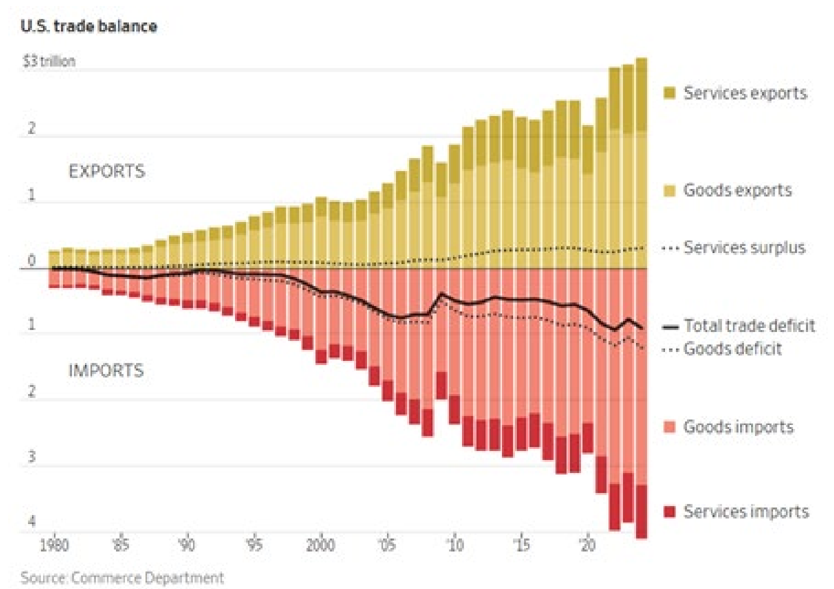
SPECIAL ANALYSIS

# Tariff Update

## The New Tariff Landscape

In just the first three months of his administration, President Trump has issued a series of executive orders that resulted in several trade actions that exposed most U.S. retailers and other companies to higher costs and potentially weaker consumer demand. The actions and situation remain fluid. Since "Liberation Day" (April 2, 2025), we've seen tariffs for most Chinese goods (the primary target for these policies at the moment) climb to 145%, a 10% universal tariff for most countries and a relative "pause" as the U.S. seeks to renegotiate trade relationships.




Though the administration's rationale for these changes is broad, from accounting for shortfalls in relationships (border security, theft of technology, etc.), or even just leveling the playing field with other countries that impose tariffs against the U.S, the U.S. also has a significant trade deficit for goods, meaning we import more goods than we export. This deficit is partially offset by a surplus for services, specifically financial products.

The table below displays the current environment vs. previous cycles.

| Year | U.S. Tariff Focus | Key Partners Affected | Notable Changes |
|---|---|---|---|
| **2018** | China, EU | China (25–50%), steel/aluminum globally | Trade Review Initiated |
| **2020** | Broadening retaliation | China (up to 25%), USMCA partners threatened | Phase One deal signed |
| **2025** | Sweeping increases | China (145%), All others (non-North America) paused except for 10% | De minimis repeal, pauses for most |

A few key observations of the state of current tariffs:

- Tensions with China remain elevated; China has now issued its own retaliatory tariffs of 125% on U.S. imports (matching U.S. actions except for the 20% Fentanyl addition), is threatening other countries against making trade deals with the U.S. and is rapidly expanding its money supply. Additionally, it now appears that consumer electronics, initially spared from the tariff escalation, will ultimately see tariff increases. However, recent comments from the President indicate these tariffs will eventually "come down substantially." A senior White House official later commented that rates will likely be lowered to between 50% and 65%.
- Trade with Mexico and Canada, though broadly governed by USMCA, is not unscathed. For example, automobiles and auto parts that do not meet the 75% North American content threshold under USMCA are now subject to the added 25% tariffs. Similar challenges affect some consumer electronics assembled with globally sourced components.
- Though most remaining global trading partners are currently paying the simple 10% flat tariff, this is (at the moment) only temporary. Vietnam, for example, faces a 46% tariff once the scheduled pause period ends after 90 days (July 9, 2025).

In response to these escalations, financial markets have seesawed in recent weeks, reacting to ongoing public communications and policy announcements. This volatility and uncertainty have dampened consumer confidence across income groups, weakened the U.S. dollar and tightened capital markets, making access to funding more difficult.

The growing uncertainty around where tariffs will end up makes inventory and business planning incredibly difficult for most companies. So far, we have seen a pull-forward in inventory (chart on left) and consumer demand. To the latter point, March retail sales grew more strongly than expected, with large gains due to many items facing stiff tariffs: furniture (up 8%), clothing (up 5%) and general merchandise (up 4%). We are also now hearing of significant delays and red tape in the customs process; DHL, for example, recently suspended high-value deliveries (over $800) to U.S. consumers, citing new customs rules as the cause for significant delays. Similarly, there is growing evidence that ordering now that tariffs have been initiated have fallen off; according to the Port of Los Angeles, it expects to receive just 16 vessels for the week ended May 3 and 15 vessels for the week ended May 10, which is down 14% and 36% from last year. Freight rates are similarly dropping; the Drewry World Container index fell 2% last week to $2,157 per 40 foot container; down from close to $4,000 in early January 2025.

## Retail Impact

As the tariff landscape has changed, we view its impact as a clear challenge to retailer profitability. Coming out of the pandemic buying period, since late 2023, many discretionary categories have already been sluggish, necessitating promotions to maintain volume. These categories are also some of the most dependent on imports. As indicated by the heat map to the right, which highlights category exposure to non-North America imports, apparel, furniture, footwear, electronic and toy companies are the most exposed. Given the inventory build-up and typical inventory turns, the impact on customer pricing will not likely be felt until the second half of 2025.

**Tariff Impact by Retail Segment (April 2025)**

| Segment | Exposure | Comments |
|---|---|---|
| Apparel | 5 | Heavy reliance on imports (esp. China, Vietnam); price-sensitive category |
| Furniture / Mattress | 5 | Large volume of imports, often from tariffed regions; bulkier items magnify cost impact |
| Toys | 5 | Predominantly China-based supply chain; cost-sensitive consumers |
| Footwear | 5 | High % sourced from Asia; heavily impacted by footwear-specific tariffs |
| Housewares & Home Furnishings | 4 | Wide range of imported SKUs; kitchen/deccor goods often tariffed |
| Department Stores | 4 | Carries multiple high-risk product types (apparel, toys, home) |
| Sporting Goods | 4 | Imported gear and branded items; strong overlap with apparel sourcing |
| Auto Parts | 4 | Component parts heavily sourced from China/Mexico; metal tariffs relevant |
| Mass Merchandisers | 3 | Broad import exposure across many categories; high volume amplifies effect |
| Home Improvement / Building Materials | 3 | Import exposure in tools, lighting, etc.; diversified sourcing helps |
| Arts & Crafts | 3 | Mixed import footprint; seasonal goods hit hardest |
| Office & Consumer Products | 3 | Imported paper, electronics, and stationery from tariffed countries |
| Drug Retailers | 2 | Limited exposure; OTC products mostly domestic, but some imports (e.g., vitamins) |
| Health & Beauty | 2 | Imported beauty tools and accessories; core products domestic |
| Pet Care | 2 | Toys/accessories are imported; food and meds mostly domestic |
| Grocery & Wholesale Food | 1 | Food is primarily U.S.-sourced; minor exposure from specialty imports & packaging |
| Restaurants / Food Service | 1 | Ingredients domestic; equipment/furnishings/packaging partially |

*Note – Electronics is not shown because expected impact is currently*

The latest uncertainty creates what economists call a “negative supply shock” that can result in a stagflationary environment, where economic and job growth slow while inflation rises. According to the Federal Reserve, the impact on supply chains may take years to resolve if the current climate continues. Trump has indicated that countries might reduce or avoid tariffs by striking deals with the U.S. But even this adds uncertainty to future tariff policy, complicating business decisions, including whether to resource and/or onshore manufacturing. However, retailers and manufacturers are also forced to make real-time decisions on how to source and price goods in the near future.

As we await the outcome of ongoing trade negotiations, U.S. companies exposed to higher tariffs can employ a number of strategies, including adjusting their supply chains, negotiating vendor price concessions and raising customer pricing. For example, Dollar Tree indicated that the 10% China tariff would have added a $20 million monthly impact to its cost of goods. However, management also noted it was able to mitigate 90% of this impact by negotiating pricing with vendors/suppliers, eliminating certain products, re-specifying merchandise, changing the country of origin and raising prices. Albertsons has also reached out to suppliers, claiming it is not accepting cost increases due to tariffs. So far, we have heard from a handful of retailers indicating they expect to raise prices to consumers, including Volkswagen, Best Buy, Target, Walmart, Autozone and Hermes. Reportedly, Shein, the fast-fashion giant that had benefited from the de minimis loophole, has already started hiking prices by an average of around 50% to account for tariffs.

## Conclusion

The sudden and sweeping introduction of tariffs has upended a global supply chain that was decades in the making, one designed for cost efficiency and just-in-time inventory management. However, vulnerabilities in the supply chain had already been exposed as early as 2022, when widespread disruptions revealed the risks of over-reliance on specific countries for critical goods. These weaknesses prompted a broader strategic shift, with the administration implementing tariffs as an economic tool and as part of an effort to encourage domestic manufacturing and reduce dependency on foreign suppliers.

The situation remains highly fluid, and the resulting uncertainty and volatility have already eroded fragile consumer confidence and are likely to drive elevated inflation, slower economic growth and possibly a recession. Disruptions to customs processes are already creating early signs of shipping delays, reminiscent of the pandemic-era congestion.

Retailers who acted early to shift supply chains and pull inventory forward or have the resources to modify supply channels will be better positioned. However, we still expect a challenging year ahead as retailers struggle to pass price increases onto already strained consumers, especially those who may also consider these tariffs temporary or that prices may remain fluid. In the upcoming earnings season, we anticipate widespread commentary from retailers, manufacturers and wholesalers on tariff-related impacts—from limiting SKUs, higher costs and longer cycle times to the need for new processes.

While all retailers face headwinds, companies with strong balance sheets and a more diverse offering will hold a critical advantage, providing flexibility as conditions worsen. Similarly, those with agile supply chains and pricing power will also fare better. Conversely, financially weaker players like Sleep Number (Furniture), Express, Cato, Asos, Land's End, etc. (Apparel), and Designer Brands (Footwear) will deteriorate faster, with liquidations becoming more likely, while smaller, undercapitalized operators—those without financial or operational flexibility—remain most at risk in this environment. We have similarly heard from Companies looking to strengthen their financial position like Saks, which recently announced it intends to issue additional debt to boost liquidity as it challenges economic uncertainty drive by rising tariffs.

Last, it is important to recognize that the U.S. remains in the early stages of this evolving trade policy landscape. While the shifts have been clearly disruptive, policy direction and implementation can pivot with little notice. On April 21, 2025, President Trump met with the CEOs of Walmart, Target, Home Depot, and others to discuss the impact of tariffs. Following the meeting, he signaled a willingness to adjust the proposed tariff levels, remarking that the 145% tariff on Chinese goods "won't be anywhere near that high." The meeting underscored the fluid nature of current trade policy, with decisions unfolding in real time and negotiations remaining highly dynamic.

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