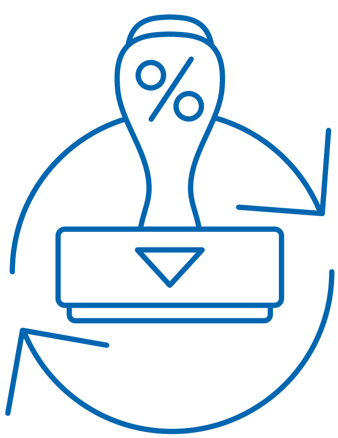
Retailers Still Unsure if Santa is Coming This Year Despite Tariff Pauses

The first 100 days of the second Trump presidency are in the books and there has been no shortage of media commentary and public reaction on both sides of the political divide about what has transpired. Those shocked by what has happened in these first 100 days either weren't listening during the presidential campaign season or didn't take his campaign rhetoric seriously, because President Trump has acted consistently with his campaign promises on most major issues. The shock factor might have less to do with what is being done than how it is being done.

Take the issue of trade tariffs, which was a cornerstone promise of the Trump campaign throughout 2024 and a personal obsession of his for decades.[1] Nobody should have been shocked that trade tariffs were coming, yet financial markets went into deep sell-off mode in the days following President Trump's executive order, announced in a Rose Garden event on April 2, calling for reciprocal tariff actions using his authority under the International Emergency Economic Powers Act and effectively declaring the U.S. trade deficit to be a national emergency that allowed him to sideline Congress from the process. Aggressive 25% tariffs meant to protect certain domestic industries from imports, such as steel, aluminum and automobiles have been in effect for more than a month, with auto parts recently added to that list. Reciprocal tariffs announced on April 2 targeted most nations with whom the U.S. had a trade deficit, regardless of whether those countries had explicit tariff policies or other trade barriers meant to discourage imports from the U.S. In other words, under the formula used to derive reciprocal tariffs, the size of our trade deficit with a nation was the primary determinant of the tariff rate rather than its trade policies.[2] Surely, financial markets knew that tariffs were coming but they didn't expect them to be so abrupt, simplistic or extreme.



There has been subsequent backpedaling on tariffs after a fierce market selloff following Liberation Day, mainly a 90-day pause on reciprocal tariffs announced on April 2, replaced by a 10% universal tariff in the interim (excluding Mexican and Canadian goods compliant with the USMCA free trade agreement), with the exception of Chinese imports that were subject to import duties of as much as 145%.[3] There also were some tariff offsets granted to domestic automakers for cars assembled in the U.S. containing imported parts, to alleviate "tariff stacking" against impacted companies. Most significantly, the Trump administration announced this week a mutual reduction in reciprocal tariffs to 10% between the U.S. and China for 90 days, reducing the effective tariff rate on impacted Chinese exports to the U.S. from 145% to 30%. President Trump claims China has agreed to end non-tariff trade barriers, but few details were provided. The pause announcement was more performative than substantive and the trade standoff with China is far from resolved other than this agreement to negotiate further.

It has been an exhausting and whiplash-inducing 40 days for financial markets, trading partners, and business executives since April 2. Was that the plan all along or has the Trump administration reluctantly recognized it staked out an untenable position on tariffs? For financial markets, it doesn't matter. What matters to markets is where we are, not how we got here. We don't know whether the reciprocal tariff announcement on Liberation Day and subsequent relaxed tariff rates and implementation pauses were an intended negotiating tactic of the President's tariff strategy or a response to panicked markets and business executives convincing the White House that initially proposed reciprocal tariffs were too extreme and potentially damaging to their industries and the domestic economy.

With Congress removed from these tariff policy decisions, final tariff decisions and any relief measures for impacted industries will rest largely on negotiations with President Trump and his key economic advisors. One would expect these dialogues will continue and could result in other exceptions or relief for highly impacted industries that can make a compelling enough case of irreparable harm. Moreover, new trade deals with other key trading nations are said to be forthcoming as well.

However reciprocal tariffs are implemented when the 90-day pauses end, they likely will be quite different from those proposed in the Rose Garden on Liberation Day. Much of Wall Street's mental energy in recent weeks has been devoted to gaming how far the White House will dial back reciprocal tariffs and which industries and nations will be spared the worst of the tariff pain. *The sharp rally in financial markets from their mid-April lows reflects a collective expectation that reciprocal tariffs will be implemented at lower rates than those posted on Liberation Day, perhaps much lower.* The White House hasn't yet tipped its hand on where it wants this to land but a few more announced trade deals—however scarce or vague the details or impacts may be—will give it cover to avert a potential global trade war and declare victory.

But there is a limit to how far tariff compromises can go. Any substantial rollback of posted reciprocal tariffs without large trade deals would be widely perceived as a capitulation by President Trump. More importantly, the White House is counting on significant *additional* tariff revenue — at least $100-200 billion annually[4] — to help offset additional tax cuts it hopes to pass beyond the extension of those in the Tax Cuts and Jobs Act of 2017. The budget scoring of any new tax cuts will not pass muster in Congress unless they also include substantial new tariff revenue.

Despite repeated assertions by the President and some of his advisors that the financial burden of U.S. tariffs will be borne by exporters, it is conventional economic wisdom that consumers will pick up most of the tab in the form of higher prices passed on to them by importers and retailers.

Consumers certainly believe they will be paying for any new tariffs. The latest University of Michigan Index of Consumer Sentiment report (April 2025) shows respondents expecting an inflation rate of 6.5% in the year ahead — the highest inflation expectation level since 1981 — compared to a 2.8% expected inflation rate back in December.[5] The final April reading of 52.2 for the overall Index of Consumer Sentiment was the fourth-lowest monthly level since 1980 and was just slightly above its all-time lows of mid-2022 when domestic inflation was peaking. Similarly, The Conference Board's most recent monthly Consumer Confidence Index reading fell for the fifth consecutive month and matched COVID-period lows, with respondents' inflation expectations at 7.0% in the year ahead.[6] These sentiments were widely shared across income cohorts and political affiliations. These are troubling trendlines for consumer-facing businesses. Don't be misled by stronger than expected retail sales in March, which to a large degree reflect accelerated purchases of discretionary goods expected to be hit by tariffs, especially automobiles, which increased 9.2% YoY and 5.7% from February, but otherwise showed modest growth of 3.6% YoY excluding autos.[7] This pull-forward effect will weaken retail sales over the balance of the year. Moreover, the back-and-forth on tariff announcements, subsequent pauses and lack of clarity and finality has weighed on consumers and has negatively impacted their economic outlooks and personal financial expectations. In this respect, some damage has been done during these drawn-out negotiations on tariffs and trade no matter how it ultimately shakes out.

More Woe for the Retail and Consumer Products Sectors

The retail and consumer products sectors are especially vulnerable to reciprocal tariffs, with most of these goods made in China or Southeast Asian countries also targeted with high tariff rates prior to the pauses. Unlike "muscular" domestic industries that President Trump wants to protect and reshore, such as heavy manufacturing and high-tech products, most consumer products are lower-skilled goods made by low-paid workers abroad that cannot be reshored and made economically competitive globally. Tariffs will only drive prices up for these goods without an obvious end game for re-sourcing. These impacted consumer goods companies are in outreach overdrive with the White House. Major footwear companies, such as Nike and Adidas, have asked the President to exempt the footwear industry from reciprocal tariffs, while Footwear Distributors and Retailers of America (FDRA), an industry advocacy group, also sent an open letter signed by 76 major footwear companies seeking tariff relief and laying out the case that 99% of footwear is manufactured abroad while the industry is already heavily tariffed.[8] Their pleas were heard—at least for the next 90 days. Most consumer goods companies, such as sporting goods, toys, apparel, and household products are in a similar predicament.

It is not apparent that President Trump is particularly concerned about tariffs hitting cheap consumer products, with his recent comments on the topic not sounding sympathetic at all to the industries' predicament. (*"Well, maybe the children will have two dolls instead of 30 dolls, you know? And maybe the two dolls will cost a couple of bucks more than they would normally,"*[9] a sentiment he has since doubled down on.) Is this just the President posturing, or an indication of how this will play out once the 90-day reciprocal tariff pauses end? Nobody knows yet.

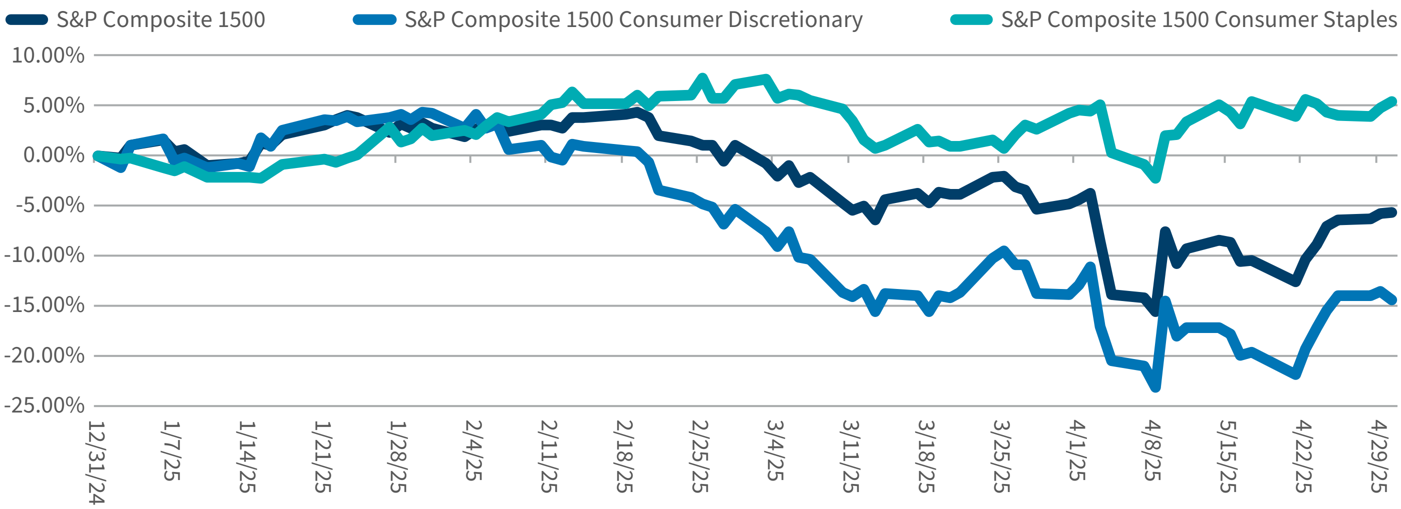
What we do know from some thoughtful analysis by Barclays[10] (prepared after the 90-day pause on posted reciprocal tariff rates with much of the world but prior to the recently announced 90-day pause and interim tariff rate reduction between the U.S. and China) is that the impact of tariffs on retailers and consumer goods companies Barclays covers would be significant and assumedly reflects the condition of these industries generally. Under Barclays' scenario, the average unit product price increase for its 33 covered companies would be 11.7%, down from 21.7% under its previous scenario using posted tariff rates, while the average price increase to consumers needed to offset the expected tariff cost would be 8.2%, down from 14.7% previously. Average EBIT margins of these 33 companies would decrease by 500 basis points in 2025 without any price passthroughs to customers. Based on this mid-April analysis, consumers would see meaningful price increases for these products under this tariff scenario.

Certainly, the 90-day reduction on tariff rates for most Chinese imports will soften the financial impact on retailers and consumers and likely will encourage the flow of consumer goods from China compared to the prior 145% tariff rate, which was tantamount to a trade embargo for most consumer merchandise. However, the interim 30% tariff rate on Chinese exports to the U.S. is not insubstantial and still will increase consumer prices paid for many goods. Meanwhile, parsing the language used by officials involved in the U.S.-China trade negotiations leaves the impression that this standoff is still a long way from the finish line.

Equity markets share this concern, with the Consumer Discretionary component of S&P 1500 Composite Index falling nearly 10 percentage points more than the overall composite index and nearly 20 percentage points more than the Consumer Staples component since the start of the year (Figure 1). The U.S. retail sector was already struggling prior to the tariff announcement, with some prominent Chapter 11 filings in 2025 including Forever 21, Jo-Ann Stores and Rite Aid Restructuring events of some other well-known retailers are hanging in the balance. The COVID-related boost for the U.S. retail sector and consumer spending is in the distant rear-view mirror and old familiar challenges for these sectors have resurfaced. Any new tariffs can only worsen the situation, and it is hard to envision any scenario other than a tariff exemption for consumer goods that doesn't add to the misery—and that is highly unlikely. It is far too soon for retailers to exhale.

Figure 1 – S&P 1500 Composite Index & Consumer Sector Components

YTD Performance



MICHAEL EISENBAND
Global Segment Leader of Corporate Finance & Restructuring
+1 212.499.3647
michael.eisenband@fticonsulting.com

Endnotes

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