New tariffs on imports of Chinese goods will likely have an impact on consumer spending. (ddp)

Trade wars

US Consumer in the crosshairs of new tariffs

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President Trump's most recent threat to impose an additional 10% tax on USD 300 billion of List 4 products coming from China beginning 1 September disproportionately targets finished consumer goods, and will likely have an impact on consumer spending.

The categories that are most exposed include apparel, footwear, electronics and toys. From a company perspective, the most impacted names include specialty retailers, department stores and low end retailers (i.e. dollar stores). On the flip side, global brands with diversified international sourcing and those with largely domestic sourcing exposure are likely to be the least impacted.

Nevertheless, most companies will try to pass along some of the cost increase to consumers. Whether they are successful in doing so is another story. Most of these categories are rather elastic and the consumer is unlikely to respond well to price increases.

Something else to consider is that we are less than 5 months away from the holiday season and increased pricing is likely to have an impact on consumption. While retailers have already bought most of their holiday goods and shipped in Fall/Winter product, the real issue will be next year's earnings where companies will now have to weigh the additional tariffs on their guidance. With 2Q retail earnings season about to get underway, this will likely be a major topic of conversation on most conference calls.

Longer term, we think higher tariffs in China will compel brands to accelerate the supply chain shift out of the country, something that has been ongoing for the last several years. In fact, since 2010, China's share of US apparel and footwear imports has declined from 39% to 33% as of 2018.

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