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Global trade redefined: Consumer goods

Dealing with tariff uncertainty

April 2025

This report has been developed in collaboration with the Strategy& team PwC's global strategy house. Together, we transform organisations by developing actionable strategies that deliver results.

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Introduction

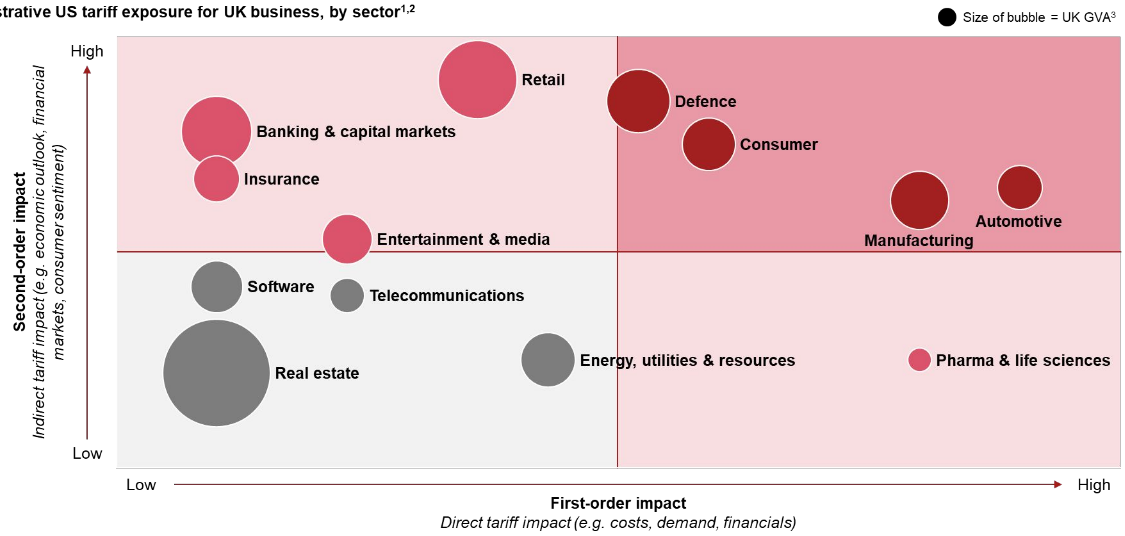
The consumer goods sector is directly impacted by the introduction of US tariffs along with some other industries - such as automotive, pharmaceuticals, defence, industrial manufacturing. US tariffs drive higher manufacturing and distribution costs, particularly for brands with revenue concentration in North America. Consumer goods will also be equally - if not more - affected by indirect consequences on consumer sentiment and spending intentions. Collectively, this is already depressing share prices of international majors and valuations of consumer goods assets.

Consumer goods businesses need to make some 'no-regret' moves to protect margin in the short term - ranging from renegotiating contracts to optimising inventory and passing costs on to consumers (where some categories have minimum headroom). Brands will also need to make some strategic changes in the medium term to remain competitive under new trade flows – recognising that significant changes to manufacturing footprint, supply chain and product specifications require more certainty given the capex and implementation required.

Some common industry actions:

1. Assess first-order impact versus second-order impact
2. Understand variation by sector within an industry and interdependencies across industries
3. Adopt a mix of 'no regret moves' in the short term and strategic choices in the longer term
4. Identify both risk mitigants and growth opportunities
5. Embed ongoing resilience to respond to geoeconomic shocks

Illustrative US tariff exposure for UK business, by sector[1,2]



Notes: 1. Estimated tariff impact assumes measures stay in place for a prolonged period, in line with Strategy&'s 'Break and reorder' scenario; 2. Featured sectors account for c.60% of UK GVA (Gross Value Added); 3. Estimated 2024 GVA based on ONS data

Where we are today

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. It marked the country's most significant departure from liberal trade policy since the Smoot-Hawley Act of 1930. The scale of the measures suggests a structural pivot in US trade strategy. Given their breadth, and the growing likelihood of retaliatory responses from key trading partners, businesses now face a materially more volatile and uncertain global trading environment.

What happened on 'Liberation Day'?

The Executive Order introduced a dual framework of restrictions: broad-based 'baseline' tariffs alongside more targeted 'reciprocal' measures. The EU was subject to 'reciprocal' tariffs of 20%, China 34%, with certain South-East Asian economies facing higher rates still. The UK was included under the 10% 'baseline' category. Certain exemptions were made for pharmaceuticals, critical minerals and semiconductors.

Prior to this, there were also a number of product-level distinctions, for example steel and aluminium and automobiles were previously singled out with a 25% tariff.

On 9 April, reciprocal tariffs were paused for 90 days for most trading partners. The 10% 'baseline' tariff introduced on 5 April now applies for all countries, except China, for which a 145% tariff applies to most goods.

A further revision was introduced excluding smartphones, computers and other electronics. US officials have indicated that further sector-specific measures are likely. The international response has been mixed:

- **Retaliatory tariffs** from countries such as China and Canada, which have imposed tariffs on a wide range of US goods.
- **Diplomatic engagement** from the UK and EU, signalling efforts to secure exemptions or negotiate new terms.
- **Unilateral liberalisation** from a small number of economies, which have opted to remove tariffs on US imports entirely, albeit from a starting point where most US goods were not subject to tariffs.

Looking ahead

Recent US statements suggest further restrictions may be introduced in select product categories. Economic theory holds that when trade flows are disrupted, capital flows are rarely far behind.

Asset markets are already reacting. We've seen volatility across equities, fixed income and foreign exchange – some of which may reflect repositioning by non-US central banks, many of whom hold large exposures to US government debt. This adds another layer of complexity for firms already contending with uncertainty around tariffs, supply chains and pricing.

> "Trade is the hinge between economic theory and political reality. When it swings, the whole house can shake."
>
> **Barret Kupelian,** Strategy& and PwC UK Chief Economist

What could happen next

Three scenarios to plan for the short term

In the near term, scenario planning will be essential. Over time, a reassessment of supply chain configuration, investment strategy and risk management frameworks may prove unavoidable in the face of an increasingly fragmented global trading system.

To help clients better understand how tariffs could evolve, we've devised three scenarios. Given the unpredictable and fast changes happening, we've chosen to limit these to tariff policy. However, we are mindful that the current changes to US tariff policy is likely to spill over into second- and third-order impacts.

Stabilise and rebuild

Reversal of the US's position on tariffs, coupled with time-bound trade negotiations with its main trading partners, including Canada, Mexico and China.

To limit market uncertainty, there is regular forward guidance on the state of the trade negotiations. The US's main trading partners strike limited trade arrangements by the end of the 90 days suspension period (i.e. 8 July 2025). These come into force by the end of the calendar year. In the interim, the "baseline" tariffs continue to apply for most economies, including China.

Divide and deal

Reversal of US position on tariffs coupled with time-bound trade negotiations with some of the US's trading partners (EU, UK, Canada and Mexico included) but excluding China (and potentially some other South-East Asian economies).

- For those counterparts where a trade arrangement is agreed by 8 July 2025, these are put in place by the end of 2025/Q1 2026. In the interim, the "baseline" tariffs remain in place.
- For those counterparts where a trade arrangement is not agreed upon within the 90 days, reciprocal tariffs are re-imposed, consistent with the 2 April 2025 announcement.
- For China, tariffs remain in place consistent with the US's latest announcements and Chinese policymakers react in kind.

In the medium to long run, the ex-US G7 economies set up cooperation mechanisms which lead to gradually closer trading, regulatory and investment cooperation.

Break and reorder

Trade negotiations with most of the US's trade counterparts, including the EU, UK, Canada, Mexico and other advanced economies break down. The US doubles down on its necessity to swiftly eradicate the goods trade deficit with the rest of the world. The US reimposes "reciprocal" tariffs by 8 July 2025. With this in mind, the EU, Japan, China and other economies retaliate in equal measure. As these economies import less than they export to the US, retaliatory actions spill over into the services sector (e.g. digital services) and potentially to public procurement.

In the short to medium run, the ex-US G20 economies set up trade, regulatory and investment cooperation mechanisms at very rapid pace. In this scenario, we could also see some non-European economies seeking a Customs Union arrangement with the European Union. We could also see some South-East Asian economies forging closer trading relations with China. These changes are also rapidly reflected in investment flows.

Taking stock of tariffs

Understanding the impact on the consumer sector

A perspective on consumer goods overall

Consumer goods businesses face higher costs across the value chain as a direct impact of US tariffs. The indirect impact is equally, if not more important with implications for economic growth, market growth and financial markets.

- Higher costs of manufacturing and distribution, particularly for consumer brands with a high concentration of sales in the US
- Supply chain disruptions, which reduce availability and/or delay deliveries of raw materials, intermediate goods and final products
- Goods being rerouted from the US and flooding other markets, which will increase competitive intensity in the UK, EU and other regions at a time when market outlook is softer across all discretionary categories
- Weaker consumer sentiment in both the UK and US, which is playing out in consumer spending intentions at a time when some categories are under volume pressure that offsets inflationary expectations
- Depressed share prices of international majors and potentially lower valuation of consumer assets, requiring robust and transparent assessment of immediate and downstream impact of US tariffs

A perspective on consumer goods categories

Alcoholic beverages and personal luxury goods are likely to more impacted in the sector. On the demand side, these categories have the most sales exposure to the US (c.5-30% for listed alcoholic beverage companies, 20-25% for the top three luxury houses). On the supply side, these categories also have a less flexible manufacturing footprint which is often associated with protected geographic origin (e.g. whisky, luxury artisans).

Other categories, such as food & drinks, health and beauty, benefit from relatively more diversified revenue sources and global manufacturing footprint, with many sourcing essential raw materials and intermediate goods from the US.

But all discretionary consumer categories are exposed to second-order impact of slower economic growth and weaker consumer sentiment – with higher prices likely to limit volume growth and in some instances stall recovery (such as personal luxury goods).

> The imposition of tariffs under the US Administration has a significant impact on consumer products companies, leading to increased costs across supply chains, re-evaluation of global sourcing strategies and in many cases, higher prices for end consumers. These policy shifts introduce substantial uncertainty into long-term planning and operational efficiency."

Sean Tickle, Partner, PwC UK Consumer Goods sector leader

Taking stock of tariffs

Assess the impacts and short term actions

Tax and operational assessment

While the medium to long-term structural impact on the consumer sector may ultimately be significant, such shifts are likely to unfold gradually. Any operational responses or strategic interventions will need to be carefully phased over time. In the near term, however, the immediate priority for consumer operators is to thoroughly assess and quantify the tariff implications from a tax and operational perspective. The following actions can be taken now and may have a meaningful impact on your business's overall exposure.

01 Conduct/validate impact assessments, including understanding the physical product / material flows.

02 Review eligibility for tariff exemptions and exclusions, for example goods in transit before 12.01am EDT on 5 April 2025.

03 Understand the country-of-origin rules and place where goods are substantially manufactured.

04 Understand the value build up of the price to ensure the custom value is correct and review cost components.

05 Consider from a transfer pricing perspective that intercompany product pricing is correct and that any revised pricing (of product or wider services) adheres to the arm's length principle (and aligns with customs considerations).

06 Consider the US specific valuation principles.

07 Review contracts to confirm whether they include a tariff cost adjuster / escalator in terms of cost

08 Consider the impact on any changes to the above on the income tax position in the US and other jurisdictions.

Navigating the potential fallout

Short and longer term actions you should take

US tariffs will fundamentally shift the global flow of products, services and capital. Consumer goods businesses can make some 'no regret ' moves now to mitigate initial impact on margins – and some strategic changes to win when there is more certainty about the new terms of trade engagement for global brands.

Themes	**Short-term 'no regret' moves**	**Moves to capture maximum value over the longer term**
	Absorb initial shock from US tariffs and navigate geoeconomic volatility	Make structural changes to future proof business against global trade realignment
Taxation	• Consider the tax points noted on the previous page, and evaluate the impact on income tax, transfer pricing and tariffs (taking a holistic tax view)	• Consider the overall tax model (customs, transfer pricing, direct and indirect taxes) implications and impact of any supply chain reorganisation so as to fully evaluate the options through an integrated business and tax perspective
Sourcing and supply chain	• Minimise customs delays at borders with accurate documentation of country of origin for tariff calculations and compliance • Renegotiate contracts with manufacturers, suppliers and distribution partners • Optimise inventories for critical ingredients, materials and/or products	• Rebalance manufacturing footprint in low tariff territories • Migrate manufacturing processing locations to qualify for 'substantial transformation' thresholds • On-shore or near-shore manufacturing and supplier network • Re-engineer product specifications to qualify for lower tariff rates • Unlock wider cost savings (powered by technology) to offset tariff impact
Range and pricing	• Pass through costs to prices in US for select categories/SKUs • Manage price variations across territories and regions • Shift stock to more profitable channels and territories	• Optimise number of SKUs, category mix and price architecture that optimise margin (capturing new cost to serve) • Rationalise portfolio (selective divestments) and enhance portfolio (selective M&A)
Financial and liquidity	• Manage any working capital risk associated with supply chain disruption • Suspend big capex investments in infrastructure • Pre-empt refinancing and credit requirements	• Define ROI thresholds for capex requirements • Revisit capex priorities across value chain and geographies
Overall	• Rapid tax impact assessment • Scenario planning • Risk mitigation	• Sources of defensible and scalable differentiation • Portfolio optimisation (organic and M&A) • Business model transformation, powered by tech

Key contacts

Contact us to discuss how best to respond to the changing rulebook for global trade.

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