strategy&
Part of the PwC network

Global trade redefined: Consumer goods

Dealing with tariff uncertainty

July 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.

Last updated: 24 July 2025
Ref: *Accessing the situation and What could happen next*

Introduction

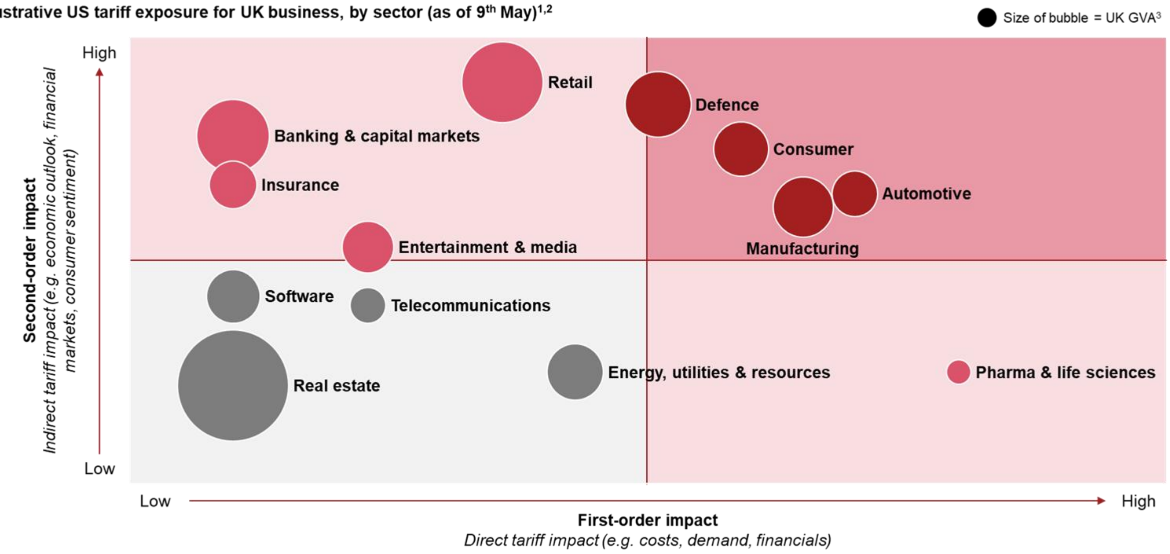
The consumer goods sector is directly impacted by the introduction of US tariffs along with some other industries - such as automotive, pharmaceuticals, defence, industrial manufacturing. US tariffs drive higher manufacturing and distribution costs, particularly for brands with revenue concentration 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 (as of 9th May)[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

Assessing the situation

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. This marked the beginning of a tumultuous period, during which sector-focused tariffs have been implemented, pauses have been extended, and tariff letters have been issued. Businesses continue to face a materially more volatile and uncertain global trading environment as a result.

What happened on 'Liberation Day'?

An Executive Order introduced a dual framework of US import restrictions: (1) broad-based 'baseline' tariffs; and (2) targeted 'reciprocal' measures. The UK was subject to the 10% baseline rate, while other partners were subject to much higher rates.

These tariffs sat alongside a number of product-level distinctions (e.g. automobiles, steel, and aluminium), and exemptions (e.g. pharmaceuticals and critical minerals).

Activity in overdrive

On 9 April, reciprocal tariffs were paused for 90 days - creating a window for intense diplomatic engagement between the US and its main trading partners.

As only three 'agreements' were reached within the initial 90-day window, this pause has since been extended to 1 August. This extension was announced alongside the issuance of formal 'tariff letters' which confirmed and, in some cases, revised rates.

While these letters provided clarity, they have also sparked new complexities. Some countries such as Japan and Brazil saw steep increases, while others received conditional relief. Countries must now consider how to respond, either through acceptance, retaliation, or renewed deal-making efforts.

It remains unclear exactly what will happen next as we pivot from a predictable trading environment into uncharted territory, but it is evident that **global trade is being redefined**.

Extended fragmentation

While the initial focus has been on goods, trade disruption is likely to spill into other domains. For instance, some service sectors may see sharper regulatory divergence, while others trend towards regionalisation.

Labour mobility, too, is under pressure. Migration constraints and shifting geopolitical alliances are limiting access to global talent pools, while heightened restrictions on knowledge exchange and capital flows risk slowing innovation - particularly in sensitive areas like AI and tech.

These shifts may feel abstract for UK businesses, but they carry real implications. Fragmented capital markets could restrict cross-border investment, divergent data standards might hinder digital growth, and scaling innovation across borders may become more challenging.

Businesses that once optimised for cost and efficiency must now account for robustness and agility - embedding **resilience** as a guiding principle across supply chains, partnerships, and talent strategies.

Organisations must adapt to this redefined world, with success likely to belong to businesses that can bridge the divides that others can't yet see.

> "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

The contours of a new trading system

While US trade policy remains volatile, there are three defining themes which we expect will underpin the future path. Most notably, it is our view that stronger protectionism will be a guiding principle for the US - a stance which may continue to evoke retaliatory action across the globe.

As the direction of trade policy becomes clearer, businesses must shift from reactive decisions to long-term strategic planning. This means developing investment strategies, risk management frameworks, and supply chain designs that build resilience against potential future changes.

US protectionism is here to stay

Enhanced US protectionism is likely to remain for a number of reasons:

Political sensitivity – the White House has framed the tariffs as a national security issue, making it difficult to roll back policy.

Tax revenue – tariffs may generate up to 6% of total US federal income in 2025.[1]

Business backlash – businesses that have adapted operations in response to tariff announcements would be stung by policy U-turns.

New measures – even if the US decides to move beyond tariffs, other protectionist measures such as domestic subsidies or local content requirements, may be considered.

Shields will vary by sector

Policy specifics will evolve over time, but the US is likely to 'shield' particular sectors:

Tariffs will focus on industries where the US sees domestic opportunities, such as steel, automotives, and semiconductors.

Priority industries are likely to evolve over time, as the US administration better understands domestic capability and international reliance.

The US is open to carving out exemptions for partners who are willing to negotiate, as illustrated by the trade agreement reached with the UK.

Policy will remain dynamic and unpredictable

US policy will continue to evolve at pace, and is likely to remain somewhat unpredictable:

Dynamic – the US weighted average tariff rate has fluctuated through 2025, with continued volatility likely.

Unpredictable – ongoing Section 232 investigations into steel and aluminium hint that fresh measures could drop without warning.

Escalating – if threats towards trading partners such as Brazil, Mexico, and the EU materialise, the US weighted average tariff rate could climb to c.35% by 1 August 2025.[2]

Less credible – some Wall Street commentators have viewed US announcements as negotiation tactics rather than true policy direction, with policy credibility further eroded with each cycle of delay and de-escalation.

Notes: (1) January 2025 Congressional Budget Office projections – prior to the announcement of Liberation Day tariffs (2) US weighted average tariff rate reflects the average tariff imposed on goods imports to the US, considering both country-specific and sector-specific rates due to be implemented on 1 August. **Sources:** WITS, the Budget Lab at Yale, Reuters, Congressional Budget Office

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.

Sam Waller

PwC UK Leader of Industry
for Retail and Consumer Markets

sam.waller@pwc.com

Sean Tickle

PwC UK Consumer
Markets Sector Leader

sean.tickle@pwc.com

Inge Cajot

Strategy& Consumer
Markets Sector Leader

Inge.cajot@pwc.com

Jo Bello

PwC UK Consumer
Markets Tax Leader

jo.bello@pwc.com

Barret Kupelian

Strategy& and PwC UK
Chief Economist

barret.g.kupelian@pwc.com

strategy&
Part of the PwC network