

Global trade redefined: Retail

**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.

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Ref: *Accessing the situation and What could happen next*

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Strategy&

Introduction

The UK retail sector will be less directly impacted by the introduction of US tariffs, reciprocal tariffs and ongoing bilateral negotiations than other sectors in the UK economy such as automotives and pharmaceuticals.

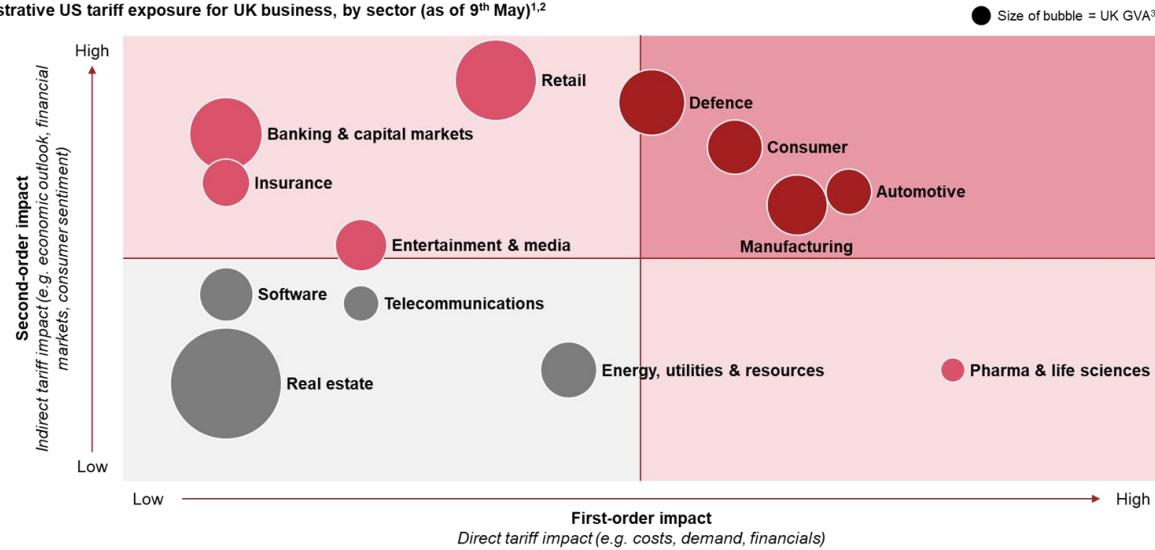
But there will be some first-order impact on retailers subject to their supply chain footprint and US sales exposure – and more material second-order consequences of fragile consumer sentiment, lower global economic growth and inflationary pressures.

This creates additional challenges for UK retailers at a time when retail margins are being squeezed by increasing competition and cost headwinds. Labour costs alone are rising due to NLW, NIC and The Employment Rights Bill. Retailers can make some 'no regret moves' in the short term and some structural changes in the medium term – leveraging their muscle memory from Covid and Ukraine crises to embed ongoing resilience in their business models.

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 geo-economic 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 retail sector

A perspective on retail overall

Retailers face higher costs of selling to the US and potential dumping outside of the US – but the bigger worry is the wider impact on consumer sentiment that drives volatility in spending patterns and therefore in retail market outlook and deals flow.

01 Higher costs of servicing the US market

Sales to the US attract a 'baseline' tariff (10%) – with a higher burden on sourcing from high-tariff jurisdictions as the country of origin (30%+ without benefit of de minimis threshold for China and Hong Kong), unless goods are substantially changed or used in the manufacture of new products in the UK.

02 Inflationary pressures for both costs and demand

New global trade dynamics affect input costs across the retail value chain – with potentially higher costs of Tier 2/3 sourcing, shipping and wider infrastructure (e.g. warehouses). These costs are likely to be passed on to consumers (in full or in part) with little retail margin cushion to play with.

03 Increased competition outside of the US

High-tariff countries may redirect excess supply from the US to the UK, EU and other regions which will intensify competition in a retail market served by a range of business models (direct, wholesale, marketplaces, resale and rental).

04 Decline in consumer sentiment and market growth

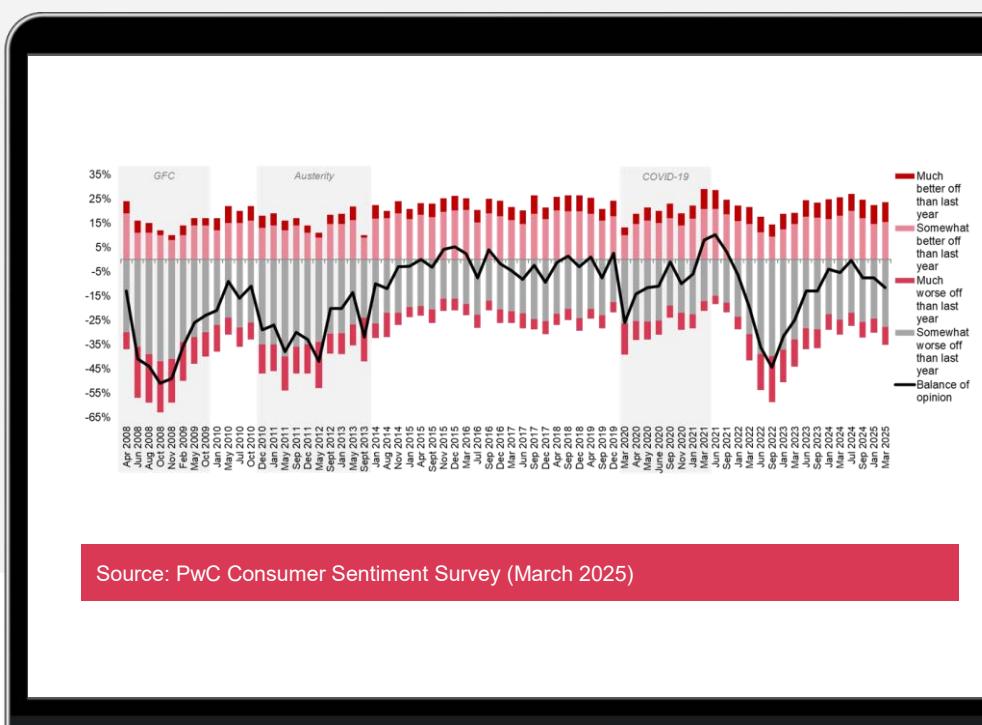
Our UK consumer sentiment index fell to -12 in March 2025 (the lowest level since September 2023). More people expressed concerns about the economy, inflation and geopolitical events – even before US tariffs were announced. As a result, more consumers are intending to cut back on spending by adopting a mix of coping mechanisms (making fewer purchases, buying cheaper products and/or shopping at cheaper retailers).

05 Depressed deals market

The volume and value of retail transactions were adversely affected by the cost-of-living crisis (retail deals volume down -23% across EMEA in H2 2024). Investors will have mixed appetite for discretionary categories – creating a valuations gap between buyers and sellers.

PwC Consumer Sentiment Index, 2008-25

"Thinking about your disposable income in the next 12 months, do you think your household will be...?"



Taking stock of tariffs

Understanding the impact by retail category

A perspective on retail categories

Some retail categories are more exposed than others, reflecting their supply chain footprint and wider resilience of that spend for consumers.



Apparel has a concentration of suppliers from countries that have been hardest hit by tariffs (e.g. China, Cambodia, Bangladesh) – with some UK retailers having a material business in the US. Apparel was the worst impacted category during the cost-of-living crisis.



Health and beauty is a relatively protected category with a manufacturing footprint across Europe (predominantly in France, Germany and Italy), the US and China. Consumers are prioritising wellness coming out of the pandemic.



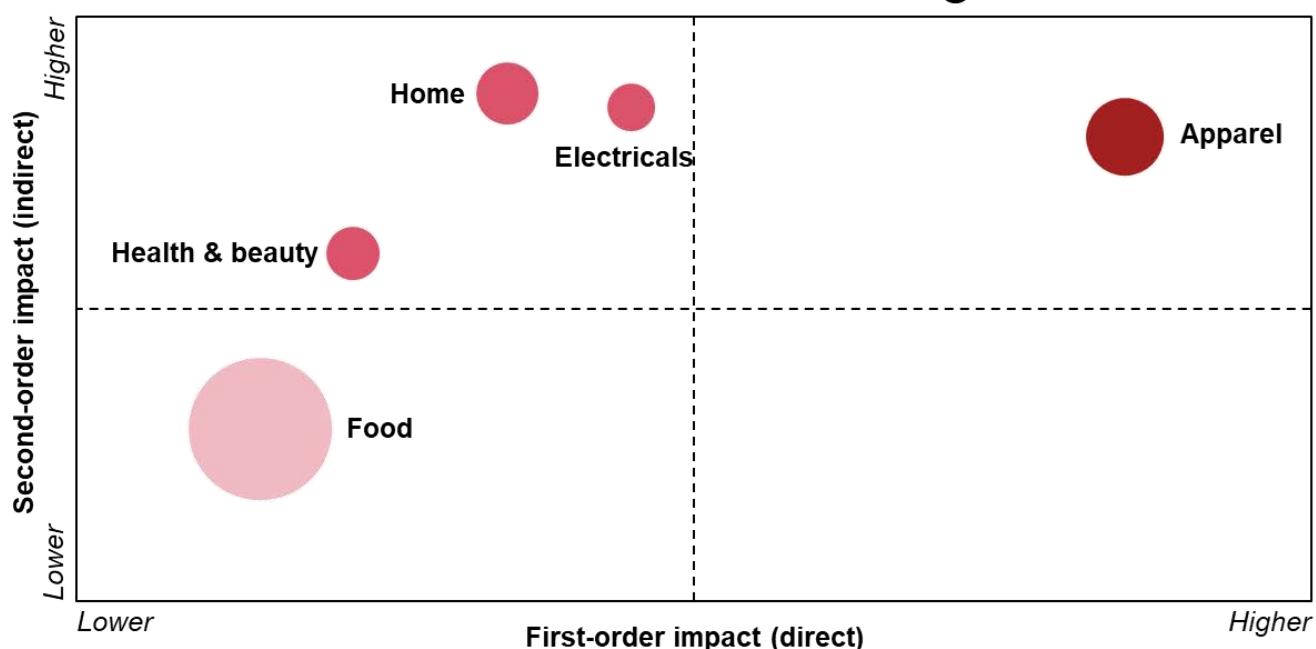
Electricals and home source from a mix of high- and low-tariff jurisdictions (e.g. China, Germany, Japan, South Korea). Big ticket purchases are more likely to be delayed with a decline in consumer sentiment.



Food is the most protected category with c.10% exports to the US (versus 55% for EU). UK consumers consistently prioritise food spend (more about their inflation expectations than a bigger share of stomach).

Illustrative impact of US tariffs by retail category

● Size of bubble = UK market size



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 retail 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 retail 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

Retailers need to prepare for a new world order which is characterised by regional power blocs, state capitalism and bilateral relations. This transition will create geopolitical volatility in the short term and global trade realignment in the medium term.

Retailers can make some 'no regret moves' now to mitigate initial risks to margin and more structural changes to transform the business model – that collectively embed resilience to counter any geopolitical shocks (tariffs or otherwise).

	Short-term 'no regret' moves	Moves to capture maximum value over the longer term
Themes	Absorb initial shock from US tariffs and navigate geoeconomic volatility	Make structural changes to future-proof business against global trade realignment
Taxation	<ul style="list-style-type: none">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)	<ul style="list-style-type: none">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	<ul style="list-style-type: none">Re-negotiate contracts with suppliers and logistics partners – and optimise 'buffer' inventoriesSwitch to alternative distribution routes	<ul style="list-style-type: none">Rebalance and diversify supplier base in low-tariff territoriesExplore warehouse and distribution capabilities in the US
Pricing and range	<ul style="list-style-type: none">Explore price increases for select categories/SKUsShift stock to more profitable channels and territories	<ul style="list-style-type: none">Optimise category mix and price architecture with lower cost to serveRebalance international sales channels in low-tariff territories
Financial and liquidity	<ul style="list-style-type: none">Manage any working capital risk associated with supply chain disruptionPre-empt refinancing and credit requirements	<ul style="list-style-type: none">Revisit capex priorities across value chain and geographiesReset margin and cash thresholds under new global trading regime
Overall	<ul style="list-style-type: none">Rapid tax impact assessmentScenario planningRisk mitigation	<ul style="list-style-type: none">Sources of defensible and scalable differentiationBusiness model transformation, powered by tech

“

Retailers need to rebalance their mix of sales and sourcing to mitigate risks associated with international tariffs and supply chain disruptions – with US protectionism likely to be the mood for the foreseeable future.”

Jacqueline Windsor, Strategy& and PwC UK Retail Sector Leader

Key contacts

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



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