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Global trade redefined: Retail

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

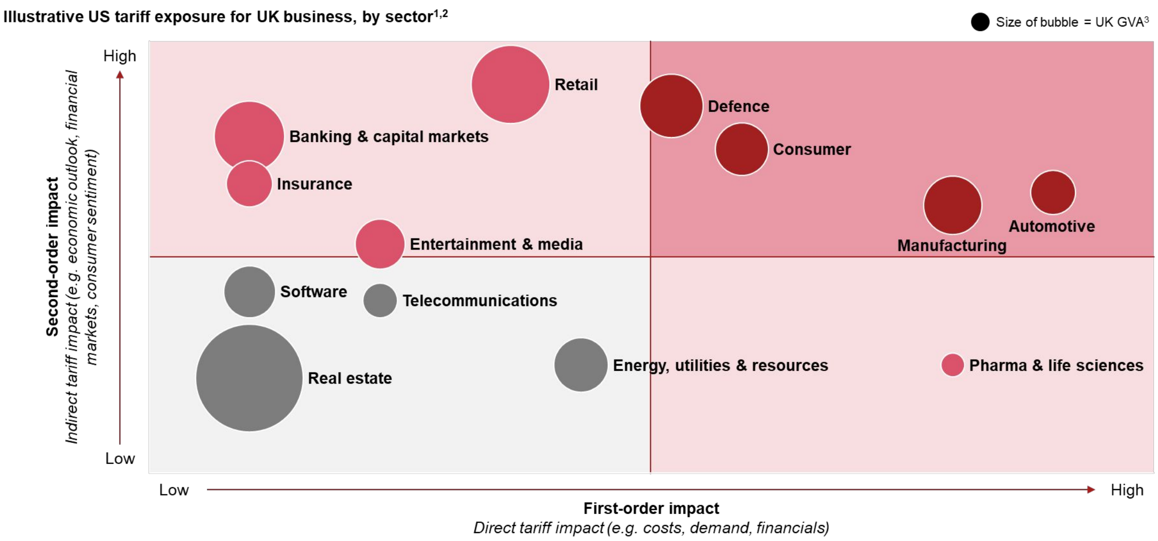
The UK retail sector will be less directly impacted by the introduction of US tariffs, reciprocal tariffs and ongoing bilateral negotiations than other sectors in the UK economy such as automotives and pharmaceuticals.

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 geoeconomic shocks



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 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.

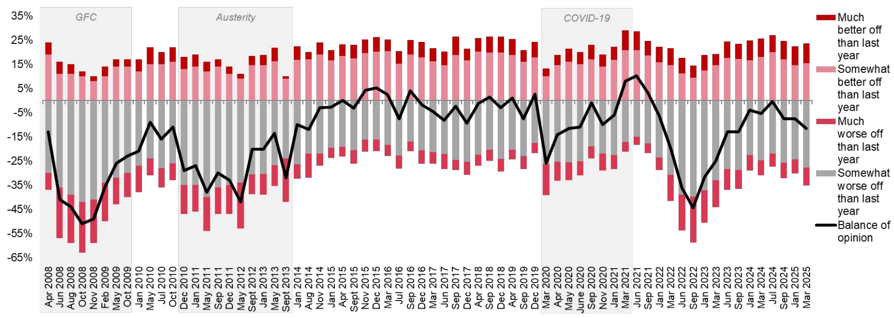
03 **Increased competition outside of the US**
High-tariff countries may redirect excess supply from the US to the UK, EU and other regions which will intensify competition in a retail market served by a range of business models (direct, wholesale, marketplaces, resale and rental).

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…?



Source: PwC Consumer Sentiment Survey (March 2025)

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.

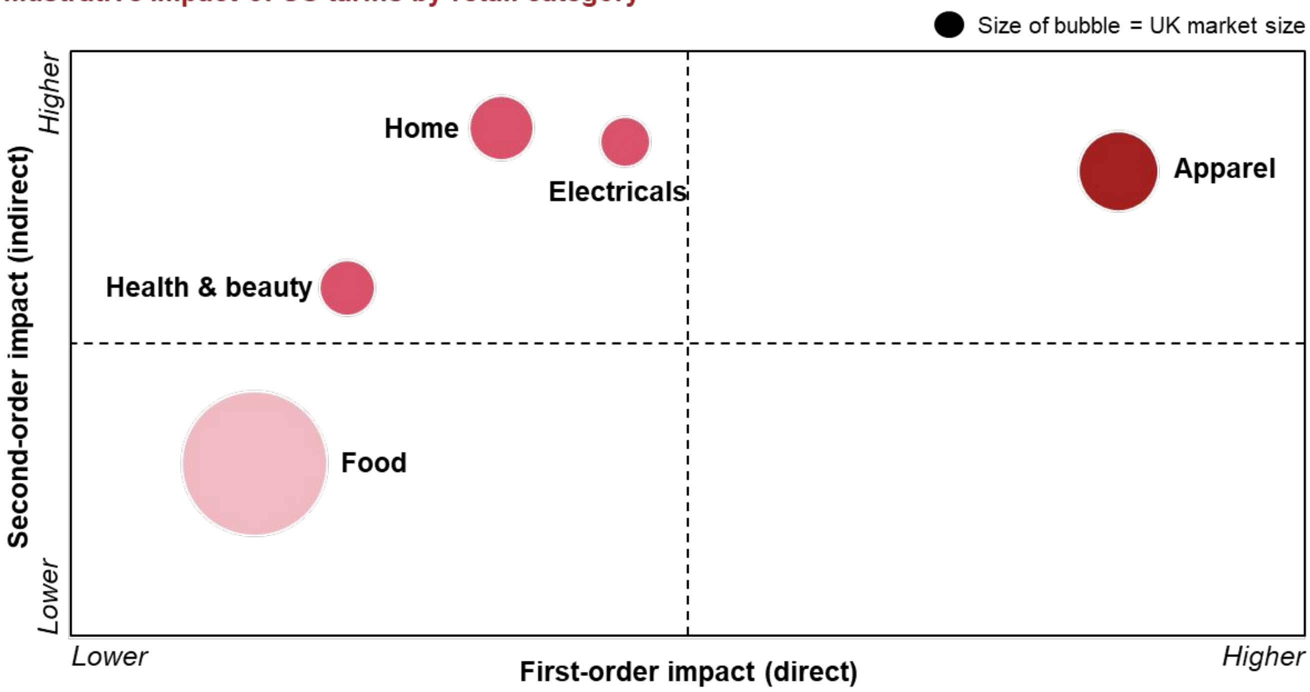
Apparel has a concentration of suppliers from countries that have been hardest hit by tariffs (e.g. China, Cambodia, Bangladesh) – with some UK retailers having a material business in the US. Apparel was the worst impacted category during the cost-of-living crisis.

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



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	• 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	• Re-negotiate contracts with suppliers and logistics partners – and optimise 'buffer' inventories • Switch to alternative distribution routes	• Rebalance and diversify supplier base in low-tariff territories • Explore warehouse and distribution capabilities in the US
Pricing and range	• Explore price increases for select categories/SKUs • Shift stock to more profitable channels and territories	• Optimise category mix and price architecture with lower cost to serve • Rebalance international sales channels in low-tariff territories
Financial and liquidity	• Manage any working capital risk associated with supply chain disruption • Pre-empt refinancing and credit requirements	• Revisit capex priorities across value chain and geographies • Reset margin and cash thresholds under new global trading regime
Overall	• Rapid tax impact assessment • Scenario planning • Risk mitigation	• Sources of defensible and scalable differentiation • Business 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

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