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Tariffs test CPG pricing power

Article

The insight: Price hikes are coming for consumer packaged goods (CPG) as companies try to offset tariff-related costs and other financial pressures.

- **Procter & Gamble** expects to begin raising prices in its next fiscal year, which starts in July, due to the "inherently inflationary" nature of tariffs.
- **Nestlé** is "trying to take as much price as we can to cover our costs while being mindful of the consumer response in a competitive environment," CEO Laurent Freixe told journalists.

- **Unilever**, which has been relying on price increases to offset commodity inflation and boost sales, will continue to do so "if necessary" to minimize the tariff impact.
- **Keurig Dr Pepper** could raise prices later in the year, CEO **Tim Kofer** said.

Nervousness abounds: CPG companies are joining the growing chorus warning that tariffs will bring immediate pain for consumers. That includes the CEOs of **Walmart**, **Target**, and **Home Depot**, who met with President **Donald Trump** to warn him that tariffs would upend supply chains and lead to higher prices and empty shelves.

While that messaging appears to now be resonating with the president, it's a concern consumers have been highly aware of for some time.

- Roughly half—47%—of Americans think tariffs will cause consumer goods prices to rise by a lot, while another 30% expect "somewhat" of an increase, per a survey by The Associated Press-NORC Center for Public Affairs Research.
- Consumers are particularly worried about how tariffs will affect the cost of groceries and other household goods, according to a separate poll by Numerator.

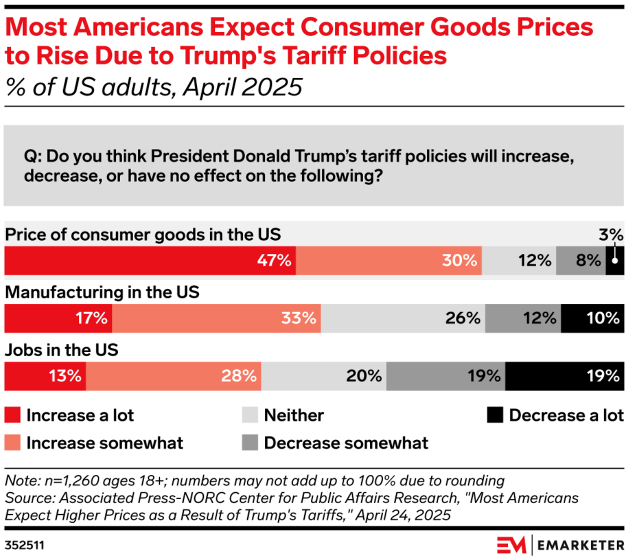
Hunkering down: As shoppers brace for higher costs, they're finding new ways to manage their spending.

- Households are doing laundry less often to save money on detergent, P&G CEO **Jon Moeller** said.
- Shoppers might start the month focused on value—purchasing greater volumes of goods at a lower price per package—but end the period with a clear emphasis on price alone, **PepsiCo** CEO **Ramon Laguarta** said on the company's Q1 call.
- That's in addition to reducing discretionary spend in everything from beauty to services like dining out.

Given these clear sensitivities, any increase in price is likely to send consumers fleeing to cheaper private labels or cause them to cut back even more than they already have on categories like chips and chocolate.

Our take: CPGs are in a bind. Years of leaning on price hikes to counter inflation and pad their bottom lines have left them with limited pricing power. Companies like Pepsi, which rely on overseas production to supply the US market, face additional headaches as they weigh whether it's worth the effort to rejigger their supply chains.

The outlook is further complicated by consumers' heightened anxiety, which is causing even financially secure shoppers to tighten the purse strings in anticipation of a possible recession. In that environment, companies that push through price hikes are at serious risk of losing sales and market share, although such moves may be unavoidable for many.



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