Arielle Feger

Tariffs threaten to reshape retail supply chains

Article

This article was compiled with the help of generative AI based on data and analysis that is original to EMARKETER.

"Nobody knows what's going to happen and when," said our analyst Rachel Wolff on a recent "Behind the Numbers" podcast, about the potential impact of tariffs. "Everybody's just waiting until the last possible minute to figure out, will these actually go into effect?"

Retailers are bracing for disruptions as President Donald Trump's on-again, off-again tariffs on imports from Mexico, Canada, China, and the EU loom.

What's at stake

At their core, tariffs are taxes on imported goods, typically paid by the importer. The proposed tariffs include:

- 25% on all imports from Mexico and Canada (currently paused until April 2)
- An additional 10% on Chinese goods (on top of an existing 10%)
- 25% on all EU imports
- 25% on steel and aluminum from all countries
- Potential value-added tax (VAT) treatment as tariffs, impacting 175+ countries

"It's going to be an administrative nightmare," said our analyst Paul Briggs, noting border agencies will struggle to determine tariff applications and reciprocal conditions.

Economic impact could be severe

Beyond price hikes, tariffs could trigger recessions.

"If it's a 25% tariff starting this week and that doesn't come down, it's going to trigger a recession almost immediately," said Briggs, noting Canada's expected 1.8% GDP growth in 2025 could turn negative.

- Mexico's economy could shrink by 1.9%, according to our analyst Matteo Ceurvels.
- US families could see annual expenses rise by as much as $3,300 due to tariffs on Canadian and Mexican imports, according to estimates from ING.

Supply chains face recalibration

The North American auto industry was "basically built on free trade between Canada, Mexico, and the US," said Briggs. But now, it's facing major hurdles.

- "The average part crosses the US-Canadian or Mexican border seven or eight times before final assembly," said Briggs. "That is a supply chain that is completely integrated without a border in place and it would be very crippling if these tariffs came into effect for the auto industry."

Retailers that shifted supply chains to Mexico to avoid Chinese tariffs now face tough choices.

"If imports from Mexico are taxed, what does that mean for those plants?" asked Wolff. "Does it just become a sunk cost for these companies?"

Consumer sentiment is already shifting

Even before tariffs take effect, impacts are visible:

- 43% of US consumers report price increases, per February Ipsos data.
- "Buy Mexican" and "Buy Canadian" movements are gaining traction
- Mobile apps to identify Canadian-made products are cropping up
- Canadian retailers are removing US products from shelves

"It's anti-US sentiment," said Briggs. "At a recent hockey game in Montreal, the US anthem was booed pretty loudly by the crowd, which is unheard of, but is a reflection of anti-US sentiment in Canada right now as a result of these tariffs."

What retailers should do now

1. Understand your brand value: "It's really understanding what is your brand value and how do you highlight those key differentiators," said Ceurvels.

2. Optimize supply chains: Reevaluate nearshoring, reshoring, or maintaining current operations.

3. Monitor global markets: Look for alternative markets with trade agreements that mitigate tariff effects.

4. Align marketing with consumer sentiment: In Canada, highlight Canadian-made goods. In the US, emphasize value and price stability.

5. Revisit inflation strategies: "A lot of it is going to be dusting off the inflation playbook," said Wolff. "If prices are going up, how do you convince people to buy?"

Listen to the full episode