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# Price hikes from rising tariffs loom ahead of busy shopping seasons

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Major retailers are sounding the alarm: The U.S.-China trade battle could be coming to a mall near you in the form of higher prices in time for the back-to-school and holiday shopping seasons.

President Trump is threatening to levy 25% tariffs on about \$300 billion worth of Chinese imported goods that include clothing, shoes, household items, mobile phones, bedspreads, toys, sporting goods and school supplies such as calendars, pens and pencils.

If he follows through, the tariffs probably would take effect in late June or July, and American consumers would see higher prices on many of those Chinese imports in the following weeks, according to retailers, analysts and trade associations.

“We’re going to do everything we can to keep prices low” but “increased tariffs will lead to increased prices, we believe, for our customers,” Brett Biggs, chief financial officer of Walmart Inc., the nation’s largest retailer, told reporters last week.

Macy’s Inc. likewise prepared shoppers for price hikes.

If the tariffs occur, “it’s going to affect a lot of the apparel and accessory categories,” Macy’s Chief Executive Jeffrey Gennette said on a call with analysts. “It is hard to do the math to find a path that gets you to a place where you don’t have a customer impact.”

Wall Street is waiting to see if Target Corp., J.C. Penney Co. and Kohl’s Corp. also warn of higher prices when they report their quarterly results this week.

The retailers are scrambling to dilute the tariffs’ effect by renegotiating supplier contracts, if possible, and stocking up on products before the tariffs take effect. They’re also trying to find alternate manufacturers in other countries.

But those changes can’t happen overnight and, “if this additional batch of tariffs becomes effective, consumer wallets will be hit hard,” Camilla Yanushevsky, a retail analyst with CFRA Research, said in a note to clients.

It’s unclear which types of goods would increase most in price, as retailers typically shy away from discussing specific pricing strategies in advance.

“From a competitive standpoint, we’re just not going to talk about it item by item and category by category,” Biggs said.

But the apparel, footwear, toy and electronics sectors are thought to be especially vulnerable to price hikes because the industries are so dependent on Chinese-made products.

For instance, China makes nearly 85% of the \$27 billion worth of toys sold in the United States each year, according to the Toy Assn., an industry trade group.

“If prices go up it’s going to dampen sales, there’s no question about it,” Toy Assn. President Steve Pasierb said. “And we’re an industry still recovering from the loss of Toys R Us,” the retailer that liquidated last year, he said.

The Trump administration already has slapped 25% import tariffs on \$250 billion of Chinese products, which includes steel, manufacturing parts and home-building supplies along with certain consumer items such as major appliances and luggage.

In the case of luggage, the industry’s trade group said those tariffs have resulted in a 5% to 10% increase in retail prices so far this year.

The median price of a washing machine before the January tariff announcement was \$749, according to researchers from the Federal Reserve Board, University of Chicago and the National Bureau of Economic Research. The tariffs added \$86 to that, the researchers said.

The latest tariff proposal encompasses a much wider array of consumer goods, forcing retailers to decide how to handle the added cost if they can't find replacement suppliers outside of China.

They can absorb the higher tariffs in hopes of keeping prices stable and not losing sales, but that eats into profits. Conversely, they could raise consumer prices to protect profits and risk a falloff in demand for their goods. For many retailers, it's likely to be a combination of both, experts said.

"The consumer is going to pay more for goods. We don't know exactly for which ones yet, but ultimately the consumer is going to pay more," said Ronald Friedman, co-head of the retail practice at Marcum, an accounting and advisory firm.

At Macy's, Gennette said it's "too early to comment on what we think that's going to mean in terms of potential price increases, and what categories are going to be more affected than others."

Trump is hiking tariffs in hopes of narrowing the U.S. trade deficit with China, which totaled \$419.2 billion last year. The higher duties also represent a response to White House claims that China for years has engaged in intellectual property theft and policies that coerce U.S. firms to surrender technologies for access to Chinese markets.

The United States and China have been negotiating a new trade pact, and Trump has said he's made no decision yet on whether to implement the new tariffs.

There also is speculation that Trump's threat of more tariffs partly is a bargaining tactic for when Trump meets Chinese President Xi Jinping at the G20 summit June 28-29 in Japan.

But if the talks fail and the new tariffs go into effect, it would be “catastrophic for the nation’s economy,” Rick Helfenbein, president of the American Apparel & Footwear Assn., said in a statement last week.

His association joined a dozen other trade groups — including the California Fashion Assn. — in recently urging the administration to avoid tariff hikes.

In a letter to U.S. Trade Representative Robert Lighthizer, the groups noted that China accounts for 41% of all apparel imported into the United States, along with 72% of all footwear and 84% of all luggage and other travel goods.

With a 25% additional tariff, the groups wrote, “we estimate a family of four will end up paying about \$500 more to buy these basic consumer products every year.”

The whole issue could be moot if the United States and China strike a deal or Trump otherwise tables plans for the added tariffs. But “nobody knows” if that will happen, Friedman said.

“It is a poker game,” Friedman said. “Somebody is going to bend eventually, but it might not be for another six months.”