Research

The Impact of the President's Tariffs on Consumer Goods

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Executive Summary

- President Trump has imposed tariffs on $258 billion of Chinese goods in response to unfair trade practices, and he is considering applying new tariffs to all remaining imports from China.
- The first three rounds of tariffs were largely applied to goods imported by businesses and used in production, such as intermediate and capital goods; the fourth round would have a significantly greater impact on consumer goods.
- Imposing a 25 percent tariff on all consumer goods from China, as President Trump has suggested, could raise the prices of these goods by $38.2 billion per year.

Introduction

President Trump is dedicated to reshaping U.S. trade policy. He has imposed new tariffs on over $300 billion of annual U.S. imports, with the stated goals of protecting domestic industry, reducing the U.S. trade deficit, and creating leverage over foreign countries. This strategy has resulted in the highest U.S. tariffs since the Smoot-Hawley Act of 1930, and it carries significant negative ramifications for the economy.

Previous AAF research has emphasized the harmful impacts of tariffs on producers – specifically, that over 60 percent of U.S. imports are used by businesses in domestic production.[i] By making these goods more expensive, tariffs increase the cost of U.S. manufacturing, which requires either price increases or a reduction of business investment in capital and labor. Meanwhile, tariffs on consumer goods – the remaining 40 percent of imports – have a more direct link to consumer prices. They increase costs for retailers who sell their imports straight to consumers or for consumers who buy foreign goods directly.

The president's trade strategy stands to cause widespread negative impacts across the economy. This analysis will focus on the impact of these tariffs on consumer goods, which are sold directly to individual shoppers.

Tariffs on China

Section 301 of the Trade Act of 1974 gives the president authority to impose tariffs against countries who engage in unfair trade practices. President Trump began imposing tariffs on China under this authority in July of 2018, citing China's theft of U.S. intellectual property. The tariffs were imposed in three rounds and culminated in 25 percent tariffs on $258 billion of Chinese goods.

Up to this point, the U.S. Trade Representative has argued that the United States is strategically imposing tariffs on easily substitutable goods and non-consumer goods in order to minimize consumer harm. Last May, however, the United States published a new list of nearly 4,000 products with pending Section 301 tariffs which contains substantially more consumer goods than the previous three. Included in this list is a significant amount of food, clothing, and accessories such as wrist watches, valued at roughly $300 billion. The final tranche, currently on hold because of the re-opened trade negotiations with China, would more than double the value of imports that President Trump has subjected to new tariffs. It would also leave no imports from China unaffected, meaning all future tariff actions taken by the president will have to involve increasing tariffs already in effect.

Impact on Retail

In 2018, retail trade sales were $5.3 trillion, or roughly one quarter of U.S. gross domestic product. Supporting those sales were at least $543 billion of consumer goods imported by the United States – an estimate found by converting 2018 import data to the broad economic categories of consumer goods (21.4 percent of total imports), intermediate goods (41.5 percent), and capital goods (20.1 percent).[ii] While consumer goods are finished products purchased by consumers, intermediate and capital goods are used by U.S. producers to create finished products. The distinction is that intermediate goods are inputs such as raw materials used in the production of final goods, while capital goods are finished goods used by businesses in production. Approximately $434 billion of U.S. imports (17.1 percent) could not be classified into one of these three categories.

China is the United States' top trading partner. It is also our largest source country of consumer goods, exporting $153 billion to the United States in 2018. In total, consumer goods represent at least 28.7 percent of all U.S. imports from China.[iii] If tariffs are implemented on the fourth list of products and nearly all imports from China are subject to a 25 percent tax, these goods would become more expensive for consumers and retailers, increasing prices by up to $38.2 billion annually.

Major retail stores sell directly to consumer and are highly dependent on imports of consumer goods. Tariffs on these goods would require that businesses either pass the costs entirely on to consumers, which would entail raising prices in line with the tariff rates, or cut costs in-house by altering wages, reducing workers, or cutting hours. In either case, the retail industry and consumers would suffer. Furthermore, the president and U.S. Trade Representative could no longer argue that their trade strategy shelters U.S. consumers from harm.

[i] Based on 2018 product-level import data from the U.S. International Trade Commission, the Classification by Broad Economic Categories, 4th revision, and a crosswalk provided by the United Nations.

[ii] Found using the same methodology

[iii] Imports from China were classified in to three categories based on 2018 import levels: consumer goods ($152.9 billion, or 28.7 percent), capital goods ($190.8 billion, or 35.8 percent), and intermediate goods ($152.3 billion, or 28.6 percent). $36.2 billion of imports (6.8 percent) could not be classified into only one category.