NIQ

Time *for* Tariffs

What they could mean for businesses *and* consumers

What lies in store for consumers, manufacturers, and retailers in 2025?

With 2025 underway, all eyes are on U.S. tariff policies. With consumers still fatigued by residual inflationary pressures, businesses will need to strike a delicate balance in managing forthcoming changes, seizing new opportunities, and mitigating subsequent impacts on pricing and supply chains.

To help you navigate this dynamic environment, we're delighted to collaborate with esteemed Yale economists Martha Gimbel and Ernie Tedeschi. In this forward-looking report, they explore the potential impacts of new tariffs, suggest strategies to prepare for them, and offer solutions for remaining competitive in 2025 and beyond.

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Martha Gimbel is the Executive Director of The Budget Lab at Yale. She has worked as an advisor and an economist in senior roles across government, the private sector, and philanthropy, including the White House Council of Economic Advisers, the Department of Labor, the Joint Economic Committee on Capitol Hill, Schmidt Futures, and Indeed.com. She is an expert in a range of economic data, including the labor market, consumer spending, inflation, and economic growth, and in how economic and policy dynamics intersect.

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1 Introduction

One of the most awaited policy changes of the new U.S. presidential administration has arrived: the implementation of new tariffs. From the optimization of supply chains to anticipatory purchasing, many manufacturers and retailers have already been preparing for significant shifts in trade dynamics, global costs, and procurement strategies.

What do new tariffs mean for global businesses?

As new tariff policies unfold, business leaders are tasked with evaluating all potential scenarios that could help position their organizations to both mitigate risks and capitalize on new opportunities. Whether this takes the shape of global supplier diversification, inventory management, and/or pricing adjustments, executives across industries must be prepared for changes that would redefine competitive landscapes for decades. **Staying informed (and agile) is key as new policy frameworks take shape.**

In this exclusive report, we address these key questions:

- What could potentially influence tariff policy?
- Which product categories will be affected?
- How can business leaders hedge their bets?
- Who is positioned to succeed in the face of new tariffs?
- What are the potential business implications of new tariff policies?

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Navigating uncertainty: Consumer spending and price dynamics

It's important to remember that the courts have largely deferred to presidents regarding their executive tariff authority. Congress ***could*** pass legislation either imposing or removing tariffs but has shown little desire to get involved in tariff policy.

On the other hand, market signals may play in a role in how new policies unfold: If markets react strongly to tariff announcements, this may make it more likely that tariffs are not imposed, that they are rescinded, or that they are watered down. But market ***complacency*** may make it ***more*** likely that tariffs go through. What do we mean by this?

When it comes to market reactions, there is often a paradoxical dynamic at play. Take, for example, debt ceiling debates: Markets generally assume that any debt limit brinksmanship will be resolved before the debt limit is breached, so there is often very little market anxiety in the months leading up to a debt ceiling deadline. Ironically, this makes it ***more*** likely that the debt limit will be breached since policymakers misinterpret the lack of market reaction as a sign that markets see no impacts from a debt ceiling breach at all. **The bottom line: If markets look through recent tariff announcements or speculation about future policies, that may give policymakers confidence to proceed as is with their plans.**

Ripple effects: Understanding potential economic impacts of U.S. tariff policy

Since new policies are now unfolding, it's hard to immediately predict what the broader economic impact will be. Nevertheless, we can discuss the various possibilities based on what we know currently, as well as previous outcomes of past tariff policies.

Shifting consumer behavior

When it comes to tariffs, the economic evidence is that companies generally pass most or all the cost onto consumers in the form of higher prices.

Consumers can respond by:

1
Consuming less overall

2
Switching what they consume to lower-priced items

3
Some combination of these

To give a sense of magnitudes: An analysis of recently proposed tariffs on Mexico, Canada, and China conducted by the nonpartisan Budget Lab at Yale found that consumers would initially, on average, see the price of their normal purchases rise 0.72-0.76%, which is the **equivalent of a loss in purchasing power of about $1,250 a year per household, on average, in 2024 dollars.**

By ***substituting away from higher tariffed goods***, consumers would be able to mitigate this effect only somewhat, bringing the final price effects closer to 0.6%—or the equivalent of a $1,000 loss a year, per household. That said, some imported goods will have no domestic substitute and some domestic goods will see their prices rise as well—making it a complex landscape to navigate.

We ultimately expect to see consumers consume less overall— ***and*** *switch away from more expensive purchases.*

Mitigating wholesale price increases

Historically, retailers have passed on tariff-related price increases to consumers.

Today, retailers must consider how much capacity consumers will have to absorb higher price levels after years of inflation. Retailers may be pressured to absorb more of the price increases themselves or to adjust costs in some other way if consumer spending is more responsive to those hikes.

Seizing opportunities in a dynamic environment

The impact to brands will be complex, as they face challenges on a few fronts. First, if they rely on tariffed goods—directly or indirectly—their costs may go up. Like retailers, they will likely need to increase prices but will have to judge the competitive state to see whether the market can absorb them. Second, if a company isn't directly tariffed or reliant upon tariffed goods for imports—but their competitors are—they could still choose to raise prices ***even though their own input costs aren't affected.***

> *In other words: Non-tariffed companies will have space to increase their profit margins—even as their competitors struggle. But they should pursue this strategy with caution since consumers are entering 2025 in a state of inflation exhaustion. In many cases, there may in fact not be as much room for domestic brands to raise prices and also maintain market share.*

Shoring up supply chains

Overall, supply chains may become more susceptible to idiosyncratic shocks. We saw this with baby formula in 2022, when safety issues at factories in the United States created a shortage that couldn't be mitigated by imports from abroad because of the United States' regulations around baby formula. In anticipation of these challenges, some companies have already switched suppliers, moved goods into the country ahead of the tariffs, or are holding off on investments until there's more clarity.

Managing interest rates

The Federal Reserve is in the middle of cutting rates but is growing concerned about the possibility of tenacious, last-mile inflationary pressure, as well as rising bond yields. If tariffs raise price levels and constrain consumer activity, it's unclear how the Federal Reserve should respond. Should it cut rates in order to stimulate consumer spending? Or raise rates to offset the effect of tariffs on prices?

Federal Reserve officials have suggested that they would not react to the price-level effects of a tariff increase, but **the possibility that tariffs have broader macroeconomic implications on demand and supply chains make the Federal Reserve's ultimate response more uncertain**. We will have to see what conditions on the ground require.

Navigating global ripple effects

At present, new tariffs have been announced only for Canada*, Mexico*, and China. If universal tariffs are ultimately applied, countries like Vietnam, Malaysia, Thailand, Singapore, and Korea will likely also experience bigger ripple effects. Retaliation is also likely, making trade dynamics more complex. Finally, we would expect tariffs to increase the strength of the dollar—which, while posing advantages for some businesses, would also make U.S. imports less competitive overseas.

*At the time of this publication, the Trump administration has announced it will pause new tariffs on Mexico and Canada until early March.

What can the price of eggs tell us about the potential impact of tariffs?

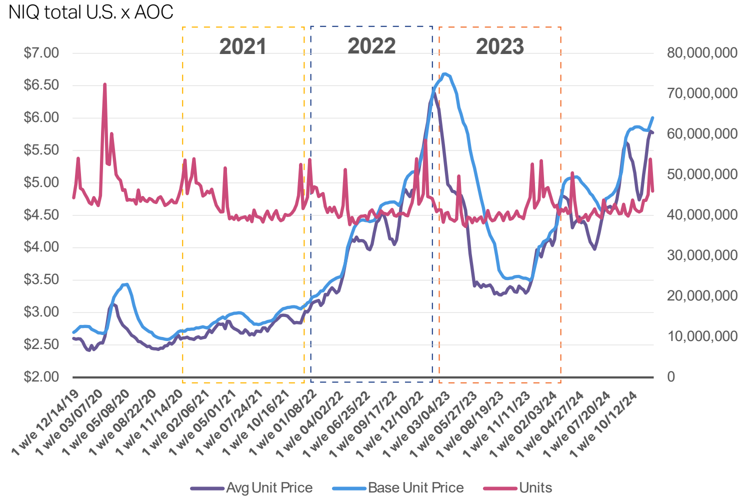
The potential impact of tariffs on the prices of consumer staple goods continues to be a focal point of discussion. While not subject to tariffs, eggs are a staple product that's susceptible to price and supply shocks—most notably in recent years due to inflationary pressures and avian flu.

What can consumer behavior in the face of these factors tell us about the potential impact of tariffs? In reviewing data from past price increases, we found several items of note:

- As prices increased, **consumers didn't adjust their frequency of purchase or total unit purchases**—an expected outcome, since eggs are still a relatively cheap staple good.
- Private label volume share held steady at 71% as its price gap with national brands decreased from 44% to 29%. Its volume share increased modestly, to 74%, once supply stabilized and the price gap widened again—indicating that **consumer affinity for and migration to private label may depend on the significance of the price shock.**
- **Total consumption of food products edged down as egg prices increased.** While broader food inflation was also at play, it's possible that consumers made fewer grocery purchases overall to afford the increased prices of eggs. **In other words: The businesses that took a hit when egg prices increased were likely not the egg producers, but those who sold goods that consumers had to consume less of to afford the eggs.**

Chicken Egg category

NIQ total U.S. x AOC



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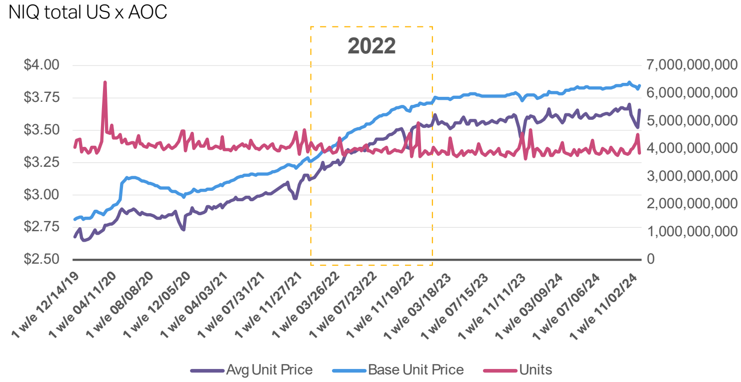
Sum of food departments

NIQ total US x AOC



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Key takeaways

Should tariff-driven price increases take effect, it's possible that "need-to-have" goods will see their sales unchanged. As NIQ's Consumer Outlook: Guide to 2025 noted, many consumers have already become more intentional in their purchasing due to inflationary pressures, with **32%** of global respondents stating they are managing expenses by focusing only on essentials. **Our findings suggest that those who are selling "nice to haves" in the same category of a tariffed good that is a "need to have" may see sales of their goods go down—*even if they themselves are not tariffed.***

Consumer behavior, particularly for discretionary goods, can be difficult to gauge in the face of price increases. While more than half of the global respondents in NIQ's Consumer Outlook survey also stated they would continue to spend a little extra for purchases that made for a special moment in the day or week, the compounding effects of inflation are still ever present, and it would appear that consumer tolerance for price increases does have limits. Those in discretionary categories that are facing tariffs should be prepared for a drop in consumer demand—especially if efforts aren't made to soften subsequent price shocks.

On the other hand, those who sell goods that could substitute for tariffed discretionary goods may be able to take advantage of this moment—particularly if they lean into a value proposition of affordable indulgence.

Finally: **The pass-through of tariffs to retail prices may not be straightforward and may take some time.** Businesses will need to consider ongoing adjustments to a tariffed environment for some time to come, leaning into consumer data to understand emerging trends and overall market health.

3

Reading the signals:
What should manufacturers and retailers be watching for?

Given the unfolding nature of new tariff policies, what should businesses be looking out for at this time? There are a few places in the data to look for direction.

The first is consumer financial health and their response to any additional price increases. In NIQ's Consumer Outlook: Guide to 2025, **only 5% of global consumers stated they had *not* changed their shopping habits in response to current economic conditions like inflation.** New shopping strategies included stocking up on deals **(30%)**, switching to lower-priced items **(36%)**, and even focusing only on essential purchases **(33%)**.

As it pertains to consumer durables, consumer sentiment data from the widely followed University of Michigan (U of M) survey suggests that consumers see conditions for buying household durables deteriorating in 2025 due to the risk of tariffs. Some may have pulled forward major purchases if they could: 22% of respondents to the December 2024 U of M survey mentioned that buying durables now would allow them to avoid future price increases—the highest proportion since 1990.

The American consumer has shown surprising resilience in the face of price increases before, but there may be limits to what they'll absorb. Watching consumer spending—particularly across income distribution—will be an important place to see if there's weakening demand.

Staying attuned to the competitive environment will also be key. Brands that are domestically based but have international competitors will likely do well under tariffs as long as they don't rely on foreign inputs. Tariffs will amount to a forced price increase on their competitors. The domestic brands could therefore have space to raise prices. In 2018, for example, domestic washing machine brands were able to raise prices even though they weren't affected by the tariffs on Chinese washing machines. **However, margin room will ultimately be decided by the competitive environment and the health of the consumer. Highly competitive industries with many brands may still find little room to gain on margin.**

On the other hand, sectors that export (e.g., chemicals, electronics) may find less room to competitively maneuver if a strong dollar hurts the ability of other countries to buy their goods. Additionally, exporting sectors in politically salient industries should be particularly wary of retaliation: Past examples of retaliatory tariffs include dairy and bourbon, while orange juice, whiskey, and peanut butter have been recently earmarked. Other targets could include petroleum, oil, maize and some machinery.

The bottom line: Industries that produce domestically shouldn't assume that they won't be affected by a broader trade war. If you do business outside the United States (whether buying or selling), this could impact your business, and staying attuned to shifting competitor and market dynamics is essential.

Finally: **If tariffs remain limited to select countries (at the time of this publication, this remains to be seen), then those that are untariffed will be at an advantage as companies move economic activity there.** However, some companies have already had to move production in response to previously imposed tariffs and may not be able to afford to move production again.

4 Navigating new tariffs: Your path forward

In addition to staying attuned to consumer signals, manufacturers and retailers should lean on strategic best practices for growing market share while softening price shocks and providing consumer value.

Consider your capacity for price absorption.

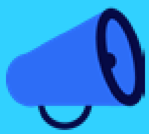
As we've already noted, when it comes to price increases, many consumers remain fatigued by inflation. If your business is affected by tariffs, determine which costs your organization can feasibly absorb before passing increases on to the consumer. The same reasoning applies even to organizations that are ***not*** affected by tariffs but have competitors that are: **Your competitive advantage may lie in keeping pricing steady.**

Ensure promotional structures are on point.

If price adjustments are necessary, then effective promotions can go a long way in easing consumer pressures and driving brand loyalty. But keep in mind that a successful promotional strategy shouldn't only drive value to the shopper **but also deliver incremental volume.** Ensure your promotions strike a balance between frequency and offer mechanics, regularly analyzing their significance with shoppers, their ability to drive sales, and their sustainability as a business practice.

Offer the right brand, in the right pack, at the right price.

The last few years have taught us that a brand's pricing power can change in a dynamic environment, and that value doesn't always signal the "least expensive" option for consumers. Our studies have found that manufacturers who make both direct and indirect pricing changes—like optimizing SKU mix and price pack architecture—can have **8%** better revenue performance than price increases alone. Challenge consumption moments with new formats and unexpected occasions to drive new opportunities along the consumer value spectrum.



Recalibrate your value proposition and brand messaging.

Nearly two-thirds (**62%**) of global consumers say they would be willing to switch brands for a lower price. With new tariff policies poised to potentially exacerbate price fatigue, brands should rightly be concerned about defending their market share. But keep in mind the consumer say-do gap: **Value is not rational; it's *relative*.** It comprises memories and associations, emotional affinity and functional qualities, as well as absolute price. It can vary according to shopping trip, category and shelf alternatives, and even by time and location. Revisit your value proposition through the lens of both conscious and non-conscious drivers—and ensure your brand messaging provides the context consumers need to choose *you*.

Fulfill emerging consumer needs through innovation and renovation.

While new tariffs might impose new marketplace pressures, they will also present new opportunities to close emerging marketplace gaps. As policies roll out, it's important to take inventory of your current product portfolio and stay apprised of evolving consumer and category drivers. **NIQ research shows that companies that grow innovation sales are two times more likely to grow their overall sales—meaning that continued innovation and renovation can be critical levers for gaining market share.**

5 Plan for resilience

In an increasingly complex trade environment, leverage data and analytics to make informed decisions that minimize risk and empower swift adaptation.

Stay attuned to market performance, trends, and consumer health and buying behavior

- Consumer Behavior & Insights
- Market Measurement

Assure product availability, inform production planning, and optimize inventory

- Supply & Distribution

Diversify and optimize your SKUs

- Assortment & Shelf Execution

Maximize profit and generate ROI on promotional activity

- Pricing & Promotion

Supercharge growth by meeting consumers' emerging needs

- Innovation

Strengthen your value proposition and maximize your marketing impact

- Brand & Media

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About NIQ

NielsenIQ (NIQ) is the world's leading consumer intelligence company, delivering the most complete understanding of consumer buying behavior and revealing new pathways to growth. NIQ combined with GfK in 2023, bringing together the two industry leaders with unparalleled global reach. Today NIQ has operations in more than 95 countries covering 97% of GDP. With a holistic retail read and the most comprehensive consumer insights—delivered with advanced analytics through state-of-the-art platforms—NIQ delivers the Full View™.

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