

INFLATION & TARIFFS

IMPACT ON GLOBAL SUPPLY CHAIN - MAY 2019 UPDATE

As of May 10th, 2019, the U.S. Government has tariffs of 25% levied against approximately \$250 billion worth of annual imports from China. These tariffs cover three separate product lists and were invoked under Section 301 of the 1974 Trade Act in response to unfair trade practices related to intellectual property.

Tariff Overview

Section 301 Overview

- **List 1:** \$34 billion of imports at a 25% tariff rate effective July 6th, 2018
- **List 2:** \$16 billion of imports at a 25% tariff rate effective August 23rd, 2018
- **List 3:** \$200 billion of imports:
 - 10% rate effective September 24th, 2018
 - Increased to a 25% rate effective May 10th, 2019
- **List 4:** (proposed) \$300 billion of imports up to a 25% rate, potentially effective after June 25th

Tariff Impact to Marketplace

These tariffs have already had and will continue to have a widespread cost impact on goods in the US marketplace. In 2018, 21% of all imported goods in the U.S. originated in China, including both finished goods and components used in U.S. made assemblies, causing an inflationary ripple effect across multiple channels.

- **Direct impact** – finished goods coming directly from China receive the full impact of the tariffs. An estimated 80% of that cost will flow through to the final cost of the product
- **Indirect impact** – USA made goods with components or sub-assemblies that are sourced in China and subject to tariffs. This category can also include multi-country sourced goods, with China origin product driving up overall average costs. Finally, items resourced outside of China to avoid tariffs could still see cost increases if the base price is higher than it was in China.
- **General inflation** – Increased demand in countries outside of China will put pressure on manufacturing capacity and drive prices up in addition to normal market factors.

Inflation

Ultimately, the tariff impact has not occurred in a vacuum, and has combined with other factors to continue driving inflation across the marketplace:

- Raw material inflation
- Transportation costs
- Packaging
- Labor rates driven by low unemployment
- Higher interest rates

Additional Resources

[Section 301 fact sheet](#)

[Notice of list 3 increase from 10% to 25%](#)

[Notice of list 3 tariff implementation](#)