

GOVERNMENT

Potential trade war affecting luxury auto could snowball to other sectors

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Automotive is the most immediately affected sector. Image credit: Rolls-Royce

By DANNY PARISI

President Donald Trump has made waves in the past few weeks as he increasingly calls for tariffs on imported goods from Canada, China, the U.K. and other nations.

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These tariffs have caused much consternation from other countries, leading to retaliatory tariffs being levied in response. While high-end labels may be insulated from the effects slightly more than mass-market brands, sectors across the luxury business will certainly be affected by less-friendly trade rules.

"China's (our largest trading partner) retaliation could impact apparel, footwear, accessories, electronics, domestic soft goods-in other words, many consumer discretionary categories," said Marie Driscoll, principal of [Driscoll Advisors](#), New York. "Vendors and retailers are likely to absorb some or all of the tariff given the highly competitive marketplace for these categories.

"Margins and profits would suffer. The average US consumer of these products will seek out lower prices.

"Amazon is already willing to work at razor thin margins. Demand could decline on the margin and domestic supply could increase for some categories from smaller startups."

Trade war

The sector most immediately impacted by potential tariffs is the automotive sector.

President Trump has made taxing imported luxury automobiles from Germany a major tenet of his tariff proposals. The tax would make the already expensive vehicles even more difficult to acquire from overseas and would significantly harm Germany's auto economy, which relies on big importers such as the U.S.

At the same time, the U.S. is not such a huge part of Germany's auto exports that tariffs would completely disrupt things. A report from Bloomberg recently claimed that the German auto industry would likely recover quickly from a sudden tariff, relying on its other export markets to make up the difference.

Some auto brands in the U.S. have reacted very negatively to news of tariffs.

For example, Toyota issued a statement, saying, "A hundred and thirty-seven thousand Americans support their families working for Toyota, and Toyota and Lexus dealerships. They are not a national security threat.

"Indeed, Toyota operates 10 manufacturing plants in the U.S. We are an exemplar of the manufacturing might of America," the statement read. "A 25 percent tariff on automotive imports, which is just a tax on consumers, would increase the cost of every vehicle sold in the country.

"Even the Toyota Camry, the best-selling car in America, made in Georgetown, Kentucky, would face \$1,800 in increased costs. We believe the only plausible outcome of this investigation is to reject the notion that automotive imports threaten national security."

Brands such as Harley-Davidson have even gone as far as to take manufacturing out of the country in response to tariffs.



Some steel and aluminum luxury accessories will be affected as well. Image credit: Michael Kors

Other sectors will not feel the effects quite as strongly. Luxury apparel and watches do not tend to use many of the materials that are on President Trump's list of potential tariffs, although the European Union has floated the idea of issuing a retaliatory tariff on some U.S. apparel goods such as denim.

However some luxury brands, particularly in jewelry, actually stand to benefit. A report in MarketWatch noted that tariffs could improve Tiffany & Co.'s annual earnings by up to 10 percent.

Steel and aluminum, while common materials for electronics and appliances, will not likely make much of a dent in other sectors if taxed heavily. However, brands that make luxury appliances or electronics may see price jumps.

In general, the proposed tariffs tend to affect mass-market brands and products much more than luxury. The tariff on steel and aluminum will have a major impact on products such as beer and toilet paper while having less of an effect on luxury products.

"Canada, our second largest trading partner, exports vehicles, steel, and raw materials to the US and a tariff would be inflationary as the higher costs flow through multiple industries," Ms. Driscoll said. "The UK (among the top 10 trading partners with the US) exports drugs, oil & gas, metals; products where a tariff would likely have an inflationary impact."

Imports and exports

Many have decried President Donald Trump's hostile actions on trade, accusing him of alienating long-time trade partners such as Mexico, Canada and the E.U.

While the U.S. has become more protectionist in its stance, China has taken the opposite course for another luxury sector.

The Chinese government is significantly cutting tariffs on imported beauty products including skin and hair cosmetics in a move expected to boost the growth of brands such as Estée Lauder and Lancôme.



Chinese consumption of imported cosmetics grew by 40 percent last year. Image credit: Kantar

Tariffs on imported beauty products will drop from 8.4 percent to 2.9 percent starting July 1. According to data from Kantar, as Chinese consumers continuously desire products from outside of the country, particularly luxury products in the cosmetics category, the lowering of tariffs will be a significant boon for brands targeting the lucrative market ([see story](#)).

While the overall tariffs on steel and aluminum will not have a major impact on the luxury business globally, they do have dangerous potential.

As the trade relationship between allied countries continues to deteriorate, the trade climate could continue to become more hostile, leading to a trade war that might see luxury goods from across sectors receiving their own tariffs.

"Demand for luxury products is driven by an emotional desire and higher prices can just make the product that much more dear," Ms. Driscoll said. "If luxury shoppers think the tariffs will be short lived, they could divert the purchase of luxury auto to leasing and wait for the purchase price to return to pre-tariff levels.

"For luxury handbags, wait, rent, lease or TheRealReal are new options for luxury shoppers. Luxury shoppers have money and are discriminate, but some luxury purchases are not discretionary, they are must haves!"

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