

Navigating Earnings Season: Are Tariffs Really That Scary?

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Samuel Rines

Macro Strategist, Model Portfolios

Key Takeaways

- There is the sense that tariffs are going to rile corporate America with the potential to rekindle “excuseflation.”¹ But corporate America is not as scary as might be commonly thought.
- Many companies have been reshaping their supply chains over the past several years. And that preparation may pay off.

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There is no lack of content regarding tariffs. Everyone seems to have an opinion on the potential consequences. But there is far too little discussion around what companies are actually saying about tariffs. We believe that should be the starting point for any conversation about the potential economic and market impacts.

American Eagle

Katie Delahunt

*This is Katie Delahunt on for Alex Straton. I just want to ask, **how are you thinking about the impact of the new administration particularly on tariffs.** Any color you could give on kind of your manufacturing exposure there would be really helpful?*

Jay L. Schottenstein

*Okay. This is Jay. We're very flexible in our operations. We have the ability like to source anywhere. **Just to remind everybody, we were around in 2016 through 2020.** So, this is nothing new to us. We've been living with tariffs and change in tariff policy in 2020, it's still going on, and we have that flexibility. And nobody knows for sure exactly what's going to happen. So, we are flexible and we are lean that way.*¹

American Eagle may have stated it best. This is not the first go around. Companies navigated the first bout of tariffs *and good ones have a game plan.* And it is not as though the sourcing headwinds waned in the intervening years. The first Trump Administration was the initial catalyst for a rethinking of supply chains, and the Covid related interruptions accentuated it. In essence, the past several years have hardened parts of the U.S. economy to tariffs.

Lennox International

*What we do take comfort in the fact that for China tariffs, if there are China tariffs that go up, we are very well positioned because when the first-time tariffs went into effect and during the COVID supply chain, we have reduced our dependency on China significantly. And the switch we recently did to move to Samsung products for mini splits and VRF that even further reduced our China exposure. From that perspective, low China exposure and Mexico exposure kind of at par with some of the other industry players.*²

Newell Brands

Relative to China and the sourced part of our business, which is a little bit less than half of our business, we used to, 3 or 4 years ago, have about 35% of our products sourced from China for the U.S. That number today is down to 15%. By the end of next year, it will be 10% or lower. And the primary product that we're making in China, of that 10%, is baby products, car seats, the Graco business, which are fully exempt from the 301 tariffs. We were able to get that exemption the last time the tariffs were implemented in China.

*And so, hard to predict the outcome, but we feel like we're well positioned to go and make that pitch again to exempt the baby business from tariffs. We'll see how—whether we're successful or not.*³

Two very different companies made rather similar statements. Lennox is a maker of air conditioners and the like. And they are almost excited about the potential for tariffs. Why? Because they took the opportunity to rework their supply chain and reduced their exposure to China. Newell Brands said something similar. Not only is their reliance on China significantly lower than previously (from 35% to 15%). But there is also the assumption that baby products will be exempt from the 301 tariffs.

Lands' End

The fact of the strength of your margins? How much is internal versus external? And lastly, China, any percentage of goods from China and thoughts on tariff impact and what it may mean for pricing for you?

Andrew J. McLean

*Great. I'll kick off with China, Dana. We've worked to put some real agility into our supply chain over the last couple of years, and China now accounts for less than 6% of our open to buy.*⁴

Academy Sports and Outdoors

Over the last several years, as part of our normal course of business, we have taken proactive steps diversifying our sourcing base to reduce our direct import exposure from a single country, which we believe best positions our business in 2025 and beyond.

First, sales of our private brands represent roughly 21% of our total business. As I mentioned earlier, we have steadily been diversifying our supplier base over the past several years and have moved the percentage of goods we directly source from out of China from over 70% in 2019 to roughly 50%

*today, and we have an exposure to Mexico or Canada. This translates to approximately 10% of exposure to potential elevated tariffs on which we are the importer of record. We will continue this diversification strategy moving forward and continue to look for ways to further mitigate any risk.*⁵

Ollie's Bargain Bin

Robert F. Helm

*We generally thrive on disruption and the tariffs are one of those disruptive events. We think that if anything, the tariffs could create an additional closeout opportunity where some other traditional retailers may be priced out of goods because of the incremental tariffs that we may be able to get that—get those products at a bargain and share those bargains with our customers. So being a price follower, it positions us well to navigate through the tariff situation.*⁶

When it comes to the question of who is most affected by tariffs, the first companies that come to mind are retailers. This makes sense given the historic buying patterns and the "made in China" tags of the past. The only issue being the "historic" part of that statement. As it turns out, the world has changed a bit since 2016.

Lands' End—a clothing retailer—only has a 6% exposure to direct China purchases. When it comes to sporting goods, the news is less positive. *But still trending in the correct direction.* For Academy Sports and Outdoors, the China sourcing has declined from 70% in 2019 to 50% today. The process of diversifying their suppliers continues. On the discount retail front, there is an odd amount of excitement about the prospect for tariffs. Ollie's Bargain Bin sees the disruptions as an opportunity to buy more closeouts at bargain prices *and pass the bargains on to consumers.* If there is ever something to challenge the narrative of "the consumer will feel the pain," it is how companies have reacted over the past several years to challenges and expect to react this time around.

Tractor Supply

*In addition to developing great private brands, we've also been building a very strong global sourcing capability. We all know that potential tariff exposure is on all of our minds. **As a reminder, direct imports currently represent only around 10% to 15% of our total sales.** And since 301 tariffs were imposed, our dedicated global sourcing team has worked hard to diversify our global supply around the globe.*

***We've cut our exposure to Chinese direct imports by nearly 1/3 since that time,** with a clear roadmap for further diversification. While all retailers will be impacted if new tariffs are imposed, we have a track record for success, and we've successfully navigated tariffs in the past. And I have confidence that we have a game plan to successfully navigate them in the future.*⁷

Casey's General Store

Darren M. Rebelez

With respect to the consumer, we're—directionally, the consumer is hanging in there about the same as what we would have talked about last quarter. *We're still seeing a little bit of softness on that lower-income consumer. But again, we don't have a disproportionate exposure to that consumer for the balance of the consumers, which are about 3/4 of them. They're continuing to shop. They're continuing to visit the store at the same frequency, continuing to buy as normal. So, I think getting back to Steve's point, we've—this quarter, we're at the midpoint of the guidance this past month in November at the midpoint. We think that 3 to 5 is the appropriate range that ultimately, we will land on for the year.*⁸

And then there is the ongoing resilience of Middle America. There are few companies that target the Midwest and/or rural areas. Tractor Supply and Casey's General Store are two of them. Tractor Supply only has 10%–15% sales exposure to imported products—not products that might face tariffs—products that are imported. For a retailer, that is a rather small figure. There was not a single mention of tariffs on the Casey's General Store earnings call. That says something on its own, but it was the statements made around the health of the consumer that jumped out. **There has been little to no change.** Lower income under pressure, everyone else is fine.

What does all of this mean? Maybe the tariff threats and rhetoric are slightly overblown. Certainly, tariffs are not great for businesses. But it is not as though companies are being caught off guard. They have been in this situation before and many learned their lessons and adapted. *That should not be underestimated.* The idea that inflation could reaccelerate is a reasonable one, but it is not straightforward either (as seen with the Ollie's Bargain Bin statements). Excuseflation—the idea that companies would use tariffs as an excuse to raise prices—may well occur in certain areas. But it may not be across the board. Not to mention, Middle America might not feel the tariff effects as much as anticipated either.

Simply, the potential for tariffs to be disruptive is something to pay close attention to over the coming months. But companies will be affected by tariffs in different ways. For some, it may even be an opportunity.