

US year-end review 2025: Caught in its own web

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About 97 per cent of clothing sold in the US is imported, mostly from China, Vietnam, Bangladesh and India as per the American Apparel & Footwear Association. So when tariffs were imposed on these nations, along with others across the globe, it meant that US apparel sector was gearing for new challenges. Although tariffs were billed as a way to bring manufacturing back home, the measures hit one of America's most import-dependent industries—fashion. Tariffs threatened to create a new kind of American fashion economy, which would see an increase in retail prices of apparel.

In 2024, apparel accounted for about 2.5 per cent of total US imports yet contributed approximately 15.6 per cent of total tariff duties, according to US International Trade Commission (USITC). That year, US fashion companies paid \$11.9 billion in tariffs on apparel imports, increasing from \$11.6 billion in 2023. The average applied tariff rate for apparel items stood at 14.6 per cent, notably higher than 13.7 per cent a year prior, before imposition of tariffs on Chinese products.

Strategy Backfired

Despite the US administration's assertions that foreign exporters would ultimately shoulder the tariff burden, an expanding body of research indicated that the majority of tariff impact is falling on American consumers and businesses. According to Goldman Sachs estimates of October 12, US consumers will have to bear 55 per cent of total cost of the tariffs, American companies will absorb 22 per cent, and foreign exporters approximately 18 per cent, and balance 5 per cent will be evaded through circumvention or compliance gaps. US price indices corroborate these indicators, with the Bureau of Labour Statistics observing a steady increase in consumer prices each month since April. As of August, the Consumer Price Index (CPI) stood at 2.93 per cent, while the core personal consumption expenditures (PCE) index, preferred by the Federal Reserve, rose to 2.7 per cent— both well above the Federal Reserve's 2 per cent target. Goldman Sachs' further estimates say that cumulative effect of tariffs will escalate core personal consumption expenditure prices by 0.44 per cent, and projected inflation to reach 3 per cent by the end of 2025, if additional levies of US tariff policies proceed as planned. Eventually, the tariff burden will shift directly to households as companies will raise prices to offset their increased costs

Manufacturing not Ready Yet

To benefit from the intent behind tariff policy, US manufacturing sector's readiness is also a must. However, the current status of the sector does not appear to be obliging. In November, the ISM Manufacturing Purchasing Managers' Index (PMI), which measures the health of the manufacturing sector by tracking orders, production, employment, deliveries, and inventory, showed manufacturing activity in the US falling for eight consecutive months. The ISM PMI report observed a contraction across all five categories, with tariffs driving the declines.

A US Fashion Industry Association study found that tariff policies could not inspire US fashion companies to up domestic sourcing. Seventy per cent of companies surveyed delayed or cancelled sourcing orders due to tariff hikes. Adjusting procurement networks emerged as the most commonly adopted tariff mitigation strategy, with more than 80 per cent of companies diversifying their production footprint to other countries and regions. Around 44 per cent companies desired to expand sourcing from the Western Hemisphere, while 17 per cent planned to source more 'Made in the USA' apparel and textiles.

In reality, higher tariffs directly disadvantaged US-based production. The US garment manufacturing companies depend on yarns, fabrics, and zippers from other countries. Because of tariffs driving up the cost of these raw materials, domestically produced apparel will lack price competitiveness. US fashion brands shifting production to the Western Hemisphere is not a practical alternative either as Asia continues to be a relatively dominant apparel sourcing base for them. Compared to key Asian suppliers, US domestic suppliers lag in product diversity, agility, flexibility, and vertical integration—the vital factors for US fashion companies. Add to that, the current state of US textile production remains a major barrier to domestic sourcing. Between January and July, US production of textiles such as fibres, yarns and fabrics, decreased by 6.2 per cent, while US apparel production fell by 4.3 per cent. The shrinking pool of overall sourcing also hinders orders for US-based producers, which account for less than 10 per cent of a typical fashion company's sourcing footprint. Challenges also exist for US fashion brands attempting to source 'sustainably' from domestic suppliers. Although most companies are likely to source clothing made with sustainable textiles in the US, including recycled, organic or regenerative materials, new infrastructure investments are needed urgently to up production capacity.

Given trade policy uncertainty, many domestic factories remained in 'wait & watch' mode and refrained from investing in the type of production expansion projects needed to grow production capacity in the US, Mexico and CAFTA-DR countries. Labour is another hurdle in domestic sourcing. The workforce to support expanded domestic sourcing will additionally require specific technical skills, which cannot be acquired overnight.

Prices Moved Upward

In July, footwear prices stayed around 4 per cent higher than prices in January with some retailers. Macy's 1,589 footwear SKUs reported a 4.2 per cent increase in price, followed by Nordstrom (3.1 per cent) and Dillard's (2 per cent). Although prices in store varied slightly from online prices, the pricing trend was same. Since private-label merchandise, many of which are made in China, refresh every few months, the retailers stood more exposed to face higher landed costs. This is because footwear carries some of the steepest baseline duties and relies heavily on China for finished pairs. In a survey conducted by the Footwear Distributors and Retailers of America, 55 per cent of respondents expected their average retail price to rise between 6 to 10 per cent in 2025.

Apparel, with longer design cycles and a more diversified supply base, moved more gradually, at roughly half the pace in footwear. Still, DSW topped the list in price increases, at 2 per cent, followed by Macy's (1.9 per cent), and Nordstrom (1.8 per cent).

Secondhand – an Alternative Hope

The global secondhand apparel market is expected to reach \$367 billion by 2029, growing almost three times faster than the overall apparel market. Since pre-owned items are not subject to the duties, they stand as a good alternative for consumer when new tariffs add 20 to 30 per cent to retail prices of new garments. When tariffs raise those costs, resale platforms suddenly look like the smart buy. For years, Gen Z shoppers have been driving the rise of secondhand fashion, but now more Americans are catching on, especially after tariff impositions.

A study found, faced with higher costs, 67 per cent consumers plan to change their shopping habits, with 46 per cent shopping at thrift or secondhand stores. In another study by a shopping app, 50 per cent respondents, with tariffs, are more likely to consider secondhand goods or local alternatives. A separate report by an online consignment and thrift store, found 55 per cent consumers willing to spend a higher share of their apparel budget on secondhand items if the economy does not improve.

Fashion Companies Felt the Heat

Carter, retailer of clothes and other essentials for babies and toddlers, reported an ~62 per cent drop in operating income over the first three quarters, y-o-y. Elevated product costs, partly due to the impact of higher tariffs as well as additional investment, weighed majorly on company's profitability. The additional tariffs begun to add substantially to the approximately \$110 million in duties on imported product paid by the company in fiscal 2024. The company estimates Vietnam, Cambodia, Bangladesh, and India collectively represented approximately 75 per cent of its product sourcing spend in fiscal year 2025, with China accounting for 3 per cent. The company now plans to close approximately 150 stores in North America over the next three years, rather than 100, as announced previously. The 150 stores collectively represent approximately \$110 million in annual net sales. The company is pursuing several initiatives, including closing low-margin retail stores, right-sizing the organisation, and honing product choices, in order to generate significant savings and improve overall cost structure.

Gap Inc., posted mixed quarterly results that sent its shares down in extended trading. The company reported a slight revenue miss, and warned of tariffs impacting profits more than originally expected. In May reporting, Gap predicted tariffs to cost between \$100 million and \$150 million, which it revised to \$150 million and \$175 million.

In October, fast fashion retailer Shein reported a 20 per cent rise in global revenues to \$37 billion but a drop in profits attributed to increased costs. Brand's sales in September declined by around 8 per cent compared with the same month a year earlier, marking the second-worst monthly performance for the company in the past three years. Company's pre-tax profits had fallen by 13 per cent to \$1.3 billion last year from \$1.5 billion in 2023 after an increase in selling and marketing costs. The China-founded online seller feels US tariff policies and their frequent changes have increased uncertainties in the global economy, that may also affect Shein's future financial conditions and operations. In early November, Shein shared \$2 billion net income in 2025 (double of last year) guidance and also forecast mid-teen percentage growth in sales without disclosing targets.

In Europe, Shein's UK arm was accused of transferring the vast bulk of income to its Singaporean parent to cut its British tax bill, and in France, the online business of the ultra-fast fashion brand faces a strong opposition.

Predicament of Fashion Retailers and Brands

Tariff waves and trade measures potentially hit every part of the fashion supply chain, from sourcing costs to logistics, brands, suppliers. As a result, brands faced drastically higher costs to bring in products while facing diverse apparel tariffs in the 15–50 per cent range. Some companies passed on these costs to consumers. For instance; Hermès and Burberry raised US retail prices earlier this year to offset 10+ per cent tariffs, while Adidas took a double-digit million-euro hit due to US duties. Companies came under pressure to squeeze margins and raise price tags, even at the cost of alienating cost-sensitive shoppers.

While high-end brands are capable to adjust prices, mid-tier and independent labels, small designers and custom fashion businesses usually operate on thinner margins. They cannot afford to absorb 20 to 30 per cent import duty increase without raising pricing that may take away customers from them. They end up with explaining surcharges or surging prices to customers. Nonetheless, consumer demand may soften if apparel prices keep climbing, especially in discretionary categories like luxury and bespoke fashion.

Over the past few years, many fashion companies diversified away from China and moved production to Vietnam, India, Bangladesh, Mexico, and other countries under China plus one policy. Tariffs imposed across these major sourcing countries this year, undid all those efforts. Those who had relocated their manufacturing can no longer reap tariff benefits, undermining years of supply-chain strategy. The US tariff schedule supersedes previous advantages as well. So, companies are now reluctantly attempting to reshoring or source from nearby countries, like Central America, with trade deals. Unfortunately, these nations have limited capacity and are also impacted by baseline tariffs. Thus, there are hardly any low-tariff havens left for apparel sourcing for the US retailers and brands, so the supplier selection criteria now rely more on qualitative or service aspects, such as speed.

Compliance Pressures

With new tariff regime came the new customs compliance, which multiplied burden on fashion importers in the US, especially when loophole of *de minimis* cannot be exploited anymore. More stringent regulatory requirement means more paperwork, more brokerage fees, and potentially slower deliveries, which specially hurts small businesses that prototype frequently or rely on just-in-time materials. To make things more troublesome, rules-of-origin compliance is now heavily scrutinised due to the transshipment crackdowns. If not heeded, importers must be ready to bear a 40 per cent tariff penalty. This has made companies more alert and vigilant in ensuring accuracy of certificate of origin. They are now more compelled to invest in better traceability, track components and raw materials, and work closely with suppliers to meet required standards.

Accountability of Tariff Stacking

In mid-November, New Jersey lawmakers asked the state's retailers to tell consumers how much they are paying for tariffs. Legislation requires retailers to display the portion of a product's cost attributable to tariffs on store tags, receipts, and online product pages. However, the state bill drew some resistance from the New Jersey Business and Industry Association, an industry group that is critical of the administration's tariffs but warned that complicated international supply chains could make determining tariff costs impractical or expensive. Unravelling the added costs can be complicated because businesses' supply chains often stretch into multiple countries, each with its own tariff rate, at different stages of production for different products or components that are later imported into the US. Add to that, businesses may not pass the entirety of tariff costs onto consumers through price increases.

The bill additionally requires wholesalers to maintain records of their tariff costs and share those records with retailers so they can comply with the bill's disclosure provisions. Non-complying retailers, identified by periodic audits, would face fines of up to \$500 for each violation. The bill includes some exceptions too. Retailers with less than \$500,000 in annual revenue would not be required to disclose tariff costs, and no retailers would have to disclose tariff costs for any product where the import taxes account for less than 2 per cent of the final retail price. The bill additionally grants the state's consumer affairs director the power to exempt other products from tariff reporting, if such reporting would be impractical, unreasonable or unnecessary to protect consumers.

The US Pays the Price

Since unveiling of his baseline and reciprocal tariff schemes in April, President Trump frequently argued that foreign exporters would absorb the costs of his tariffs. However, the situation played differently with the burden now expected to land squarely on the US companies and consumers, which pushed CPI inflation steadily higher since April. As the US economy heads into the holiday season, this trend is likely to weigh on consumer sentiment, which fell sharply in November, according to the University of Michigan Index of Consumer Sentiment (ICS).