

Tariff Passthrough at the Border and at the Store: Evidence from U.S. Trade Policy

by Cavallo, Gopinath, Neiman, and Tang

Discussion by Javier Cravino

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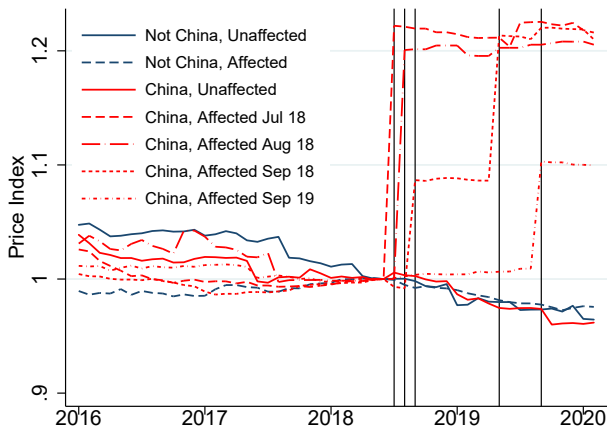
Overview

- ▶ **Goal:** Study the response of border and retail prices to US tariffs
- ▶ **Methodology:** Compare goods affected vs. unaffected by tariffs
- ▶ **Contribution:** Border and retail product-level prices (\neq unit values)
 - Change in consumer prices important for welfare implications
- ▶ **Main findings:**
 1. Full tariff pass-through into US import prices (inclusive of tariffs)
 2. Low exchange rate pass-through into US import prices
 3. Low tariff pass-through into US consumer prices
 4. US exporters lowered prices after retaliatory tariffs

Comments

- ▶ Great paper!
 - Very clean and convincing
 - Hard to dispute main findings
- ▶ Well known caveat with diff-in-diff: level effects are differenced out
 - Border: Get level from time series

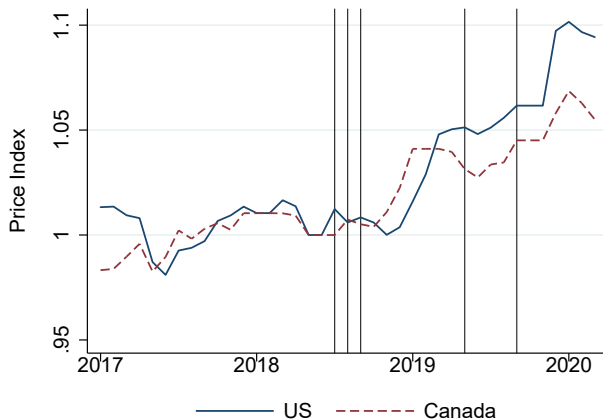
US Import prices inclusive of tariffs



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 - Border: Get level from time series
 - Retail: Get level from Canadian prices

Retail price indexes for identical goods sold in US vs Canada



Is the difference in ERPT vs. tariff pass-through puzzling?

- ▶ US import prices (inclusive of tariffs)
 - Increase following new US import tariffs
 - Not very responsive to depreciation of the dollar (ERPT 0.22)
- ▶ Chinese export prices in US\$ (before tariffs)
 - Unresponsive to tariffs and exchange rate (Gopinath et al. 2019)

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- ▶ Chinese export prices in US\$ (before tariffs)
 - Unresponsive to tariffs and exchange rate (Gopinath et al. 2019)
- ▶ Consistent with competitive pricing if costs increase with tariffs but are insensitive to China-US exchange rate
- ▶ True if Chinese wages (Value Added) are a small fraction of costs
 - Johnson-Noguera: VA/export ratio in Chinese mfg. exports 0.40
 - CGNT: ERPT conditional on a price change 0.37

How much are retailer profit margins falling?

- ▶ Only a small portion of retailers costs affected by tariffs
 - Distribution costs, operating expenses, etc
 - e.g. 'Coach' Financial Statement: $\text{COGS} \simeq 30\%$
 - With 20% tariff, cost increase by $0.3 \times 0.2 = 6\%$

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 - Example (20% tariff - ignoring distribution costs):
 - ▶ Import price rises from 1 to 1.2, retail price rises from 2 to 2.3
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- ▶ More generally: low pass-through may be optimal in the long run
 - Need to know supply and demand structure