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illUminate Blog Transcript: Fabio Gómez-Rodriguez on how the Economy is Doing and Why

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ANNOUNCER: 00:02

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STEPHANIE VETO:

00:14

Welcome to illUminate, the podcast for Lehigh University's College of Business. I'm your host, Stephanie Veto. It's January 16, 2026, and we're talking with Fabio Gómez-Rodriguez about consumer spending in 2025. He's an assistant professor in economics, and his research focuses on time series, in particular the use of non-stationaries to identify the effects of monetary and fiscal policies on the economy. Hi, Fabio. Welcome to the show.

FABIO GÓMEZ-

RODRIGUEZ: 00:41

Hi, how are you?

VETO: 00:42

Good, thanks. So the GDP hasn't released the official Q4 report yet, but I think we can discuss overall spending in 2025. Everything I've read is that consumer spending is fueling the economy. What is your take on that?

GÓMEZ-RODRIGUEZ:

00:58

This is a very interesting thing to think about. Economists like to separate economic growth into two main components. One of them is consumption. The other one is called investment or savings. And the way I like to think about it is like in your household, every dollar you make, you have the decision to either spend it in buying something they want or maybe hiring someone to do something or maybe save it and invest it and try to get some interest rates on that. So what's happening is that mainly the biggest portion of the economic growth has always been about 70% is consumption. So it's usual. It's normal that consumption is one of the main drivers of economic growth. So because of this big portion, little changes in consumption would definitely reflect in the economy. And the final answer or the short answer to your question is yes, it has been consumers spending the main driver of economic growth in the last couple of quarters.

VETO: 02:08

And I think the maybe an interesting thing about that is that this is happening even with inflation. Can you describe what inflation is and why it's been such a huge topic in 2025?

GÓMEZ-RODRIGUEZ:

02:21

Of course. Yeah. Thank you. Thank you because that's actually one of my favorite questions to answer. And the way I like to answer is the way economists like to keep thinking about two forces interacting, like supply and demand and everyone understands what supply and demand is. Well, the way I like to explain what inflation is is very similar. I like you to think about inflation being the counterpart to interest rates. What's interest rate? That's very easy to explain is what motivates you to save, to keep your money and spend it later. Well, inflation is the counterpart to that, as in it motivates you to spend your money because in inflation is the way or the speed at which your dollar is losing value. So if it loses value too quickly, you want to spend it rather faster, right? So inflation is a motivator to spend money while interest rate is a motivator to keep your money and save it and try to invest it and make more money out of it. Now, these two things obviously are very important. And one of the reasons



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we have been talking about inflation in 2025 so much is because we are at a very critical point at which we are still, say, I'm going to say suffering from a surge in inflation that we had a couple of years ago. So the question is, are we done fighting this at the same time that our economy and as we all want is wanting to grow and in the way in which you grow an economy is by lowering interest rates. So the Fed has to-- it's mainly the Fed has to understand where is that good point between fighting inflation and incentivizing the economy. And because we are at such a critical point has become a very important topic to talk about in economics and especially the last year.

VETO: 04:23

Is that what it means when you hear the Fed is cutting rates? Is that cutting interest rates? Because it's so funny, you hear all this on the news, and I'm always like, google- - I'm like, "Inflation, Fed cuts." Is that the same interest rates?

GÓMEZ-RODRIGUEZ:
04:38

Yes. Yes. Well, if you think about it, the Fed is in charge of trying to keep inflation on check. So if you think about it, and that's why one of the reasons I like to explain inflation as a counterpart to interest rates is because you understand, yeah, well, inflation is what motivates me to spend money. If I think something is going to be more expensive later, or I will have to pay for the same car a few thousand more dollars later, I might decide to buy it now. So if you think about it, you want inflation because it's a motivator for purchases to happen. And with purchases, that's the economy. And remember the first question is about consumption. Consumer spending is one of the main drivers of the economic growth. So you want inflation because it equals economic growth. You don't want too much inflation. So the Fed is the player that is in charge of trying to keep inflation not zero, not negative, just above zero, but stable. And hopefully around 2%, which is what they target to be inflation because they decided that's the number that will be adequate for the US economy. So whenever the Fed has to do something about it, it could be because inflation is too low, because inflation is too high, because in the other mandate, the other thing they have to pay attention to is unemployment. They have to try to provide the best conditions for hiring and for people to keep their jobs. And whenever they are cutting interest rates, for example, you have to think about it. Well, if interest rates are cut, that means that my incentive my incentive to save is going to lower a little bit, and I might want to spend a little bit more. So you want the economy-- to more purchases to happen.

GÓMEZ-RODRIGUEZ:
06:36

And businesses, if they see that they are selling more and more, they might want to start hiring more help, or I mean, I'm obviously simplifying this a little bit, but this is basically how it happens. When the Fed tries to cut interest rates, what they're doing is they're trying to incentive the economy and the counterpart, whenever they increase interest rates, they're trying to fight inflation. When inflation is too high, people are spending too much money. So we want them to save because otherwise prices are going to keep going up. So that's the that's the counterpart. And that's basically what it means when the Fed does something, they're trying to balance these two big objectives or two big goals they have.

VETO: 07:19

That balance seems impossible to find. I don't know.

GÓMEZ-RODRIGUEZ:
07:23

It is very difficult. And especially now that after all the high inflation that we saw in the last couple of years, people want to be done with fighting inflation. They were



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like, come on. We're at two point something, is that very close to what we want. Why aren't we not incentivizing the economy? And that's definitely since we're at such a critical point, that's why it's generating so much buzz, right? Because it's right there and some people want, some people do not want to finish because one of the risk is that what if inflation comes back and inflation can make you poor. If you already are in the in the lower quantiles of income, if you don't make that much money, inflation can be very harmful. So that's definitely something very difficult to achieve. That's why so many people are thinking about it.

VETO: 08:24

Yes, and googling so many things that you wouldn't normally google as a US consumer. I think something that really inspired me to talk with you about this topic is it was probably back in October, so we were in pretty much the fourth quarter, and it was talking about the cost of things going up, but there were a lot of really interesting news articles about families going all out for Halloween and doing extra decorations and spending more than they have in years past. And so I was interested to see how the quarter would go with the major holidays happening in terms of presents and Thanksgiving and food and everything, how spending can still be up, given what you're hearing from all the reports. And so this is probably my favorite question that we came up with, and that's economic growth appeared resilient during the holiday season, right, like we just said. And even as some surveys suggest, a rise in consumer concern. And so how do economists assess these mixed signals when projecting future consumer spending?

GÓMEZ-RODRIGUEZ:
09:36

Well, I like that it's your favorite question. It's also the most difficult one.

VETO: 09:41

Oh, no.

GÓMEZ-RODRIGUEZ:
09:42

Because there's a lot of things to think about. If you think about it, the economy has been resilient, and definitely one of the most important prices-- you keep thinking things are more expensive, and you don't like it when you have to pay more for eggs or for bread or for getting a haircut. But one of the important prices that you kind of like going up is wages. And that's part of the inflation as well because it's what businesses have to pay for labor. So if you think about it, one of the good things about inflation being up or one of the good things about prices in general going up is that, technically, wages also have to go up together because it's all a system. It's all trying to find an equilibrium. And technically, since wages are also a price, they will also come up with inflation. And what I think is the main thing here is that wages also catch up with inflation. So our ability to buy a stop has remained relatively untouched. And that's why, for example, for the holidays, we're being able to spend a little bit more into one extra costume or one extra, I don't know, ghost for Halloween, or maybe a bigger turkey in November, or, who knows, another type of cell phone for December in Christmas, right? So what I'm trying to say is that wages also met to the occasion or also has also been increasing, and we're being able to spend normally. That's obviously a good sign. The question is, is this sustainable, right?

GÓMEZ-RODRIGUEZ:
11:42

And there are other things that seem to be what usually is an alarm for the economy. For example, the number of jobs, if they are not-- if you don't create jobs in the same speed as you've been creating before, then you start thinking, is there something? Even if not necessarily people are losing their jobs, if they're not hiring as much, that's



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a sign. So jobs is definitely consumer spending is one thing. Business investment. So what's happening is there are a lot of mixed signals that usually should at least tell us, "Okay, pay attention to what's going on." One of the things that I forgot to mention in the first question about consumer spending driving the economy is that we do see consumer spending increasing well or growing well. It seems like it's a little bit more heavy on the service part. And if we think about it, the things that we want versus the things that we need, the things that we need are mostly goods things. We still need to go to the doctor. And health, of course, is one of the most important services, but also food, which is goods. So if you think about it as services growing, it tells you about who is spending more. This question is, unfortunately, or this analysis cannot be done completely without trying to think, "Is this the same for people that have less or lower income versus higher income?" And this heterogeneity is definitely something that we have to think about. So if people or households with more income are the ones driving the economy, that obviously should be a sign of concern because we also care about-- we should definitely also care about lower income families who are struggling. So basically, as you can say, I have said so many variables, so many things. So as you can see, that's why it's a very difficult question to answer. What do economists look at when they're analyzing the situation? Well, so many things.

GÓMEZ-RODRIGUEZ:
13:59

And you try to make a story out of it and try to make it easy to explain, but it's definitely very difficult. And yeah, I don't know if it was more like a large or a long answer rather than a simple one. But I hope that at least something is clear or at least I was able to answer a little portion of the question.

VETO: 14:20

Absolutely. Yes. No, I mean, I have so many questions, but at least it starts to make sense as to why things look the way they do. But you did bring something up that reminded me of-- and you hear it a lot now, I would say, but it's the scenario where things cost more, but people's wages are higher or should be higher. But you think back 30 years ago, 40 years ago, you had a family of four on one income and a home and this, that, the other, hobbies, vacations, things like that. And now, even speaking firsthand, it's like we have a family of four, two full-time incomes, great pay, getting by.

GÓMEZ-RODRIGUEZ:
15:08

Yeah. Just getting by.

VETO: 15:09

Just getting by.

GÓMEZ-RODRIGUEZ:
15:10

I know that. I know the feeling. Yeah, it's very interesting. As I said, we want inflation to be positive because that's an incentive to spend. And whenever it goes up a little bit more than it should, I'm not talking about just 2021, 2022 with what happen, but also in the 80s, in the 70s, at the end of the 70s and the 80s, there was another period in which inflation was relatively high. And whenever these kind of things happen, we all at the end feel like we cannot come around as well as we used to. And things catch up and they catch up a little bit slower than they got worse if that makes sense. One of the biggest things that you have to think about is that inflation is not prices. It's measured with prices, but it's not prices. And if I tell you inflation is low, often people expect prices to go back to what they were. And that's the way that it almost seems like the only way in which I'm going to feel secure in terms of financial terms is if I go to the grocery stores and spend again the amounts that I'm used to spend before all



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this inflation surge. And that's not going to happen. For that to happen, inflation would have to be negative for a good part. And we already discussed that inflation being negative is actually not really good for the economy. So yes, it feels like-- it definitely feels like now things are tighter, but they're catching up. They will catch up eventually. And I feel that it is a very common feeling that what you're describing.

VETO: 17:05

Yeah, for sure. And a lot of your research focuses on the value of the US dollar. And I first heard you talk about your research back in the summer, and I thought that it was just incredible hearing what you focus on. This sort of relates to everything we were talking about with the economy and US consumers and the value of the US dollar. What's US currency been like in 2025?

GÓMEZ-RODRIGUEZ:
17:32

What I think has been happening is that the issue with inflation is that-- inflation, remember incentivized spending and how do you spend when you're spending, when you're purchasing things, you need money, you need dollars. So high inflation implicitly also requires a larger amount of dollars around. When I was in high school, I remember someone asked me and not that I was an expert at that point, they just asked why don't they just print more money and give more money to people and everyone will be richer. And then I remember I came up with that explanation and maybe since then I was passionate about economics. But I said, well, whenever you are collecting stickers, do you know sticker albums where you have to fill up like 500 different stickers and you go to the grocery store and buy these packages that would have five or six stickers and you're trying to collect them all. And there's always this one sticker that comes in every single envelope. And the one that comes more often is the one you care less about. If they will switch up with the one that never comes out, the one that comes less often is the one that has more value. So whenever we print more dollars, we are definitely making our dollars have less value. And I think that with the surge of inflation, that's certainly something we're seeing that the dollar has lost some value. I'm not saying that it will necessarily go up anytime soon. I'm just saying that that's something we have observed, that the value of dollar against other currencies, for example, has been losing value.

GÓMEZ-RODRIGUEZ:
19:22

The good thing is that I believe that even if there might be alternatives to use other currencies for international trade and all that, which definitely gives value to the US dollar if even other countries are performing transactions in dollars, that's still the case. I mean, it's not changing the currency to go to is the US dollar. I would say that that's a good thing. That gives the US dollar some sort of safety net, but definitely something to look at and keep thinking about and researching about maybe.

VETO: 20:03

Are you sad that the penny's been discontinued?

GÓMEZ-RODRIGUEZ:
20:06

Well, it's definitely a very, very, it's been part of US people for such a long time. So it's definitely something that makes you think about how lives goes on sometimes even for the penny. And so many nice and interesting sayings - or how do you say? - wisdom of the people, right, had to do with penny.

VETO: 20:35

Penny for your thoughts.

GÓMEZ-RODRIGUEZ:
20:36

Yes, penny for your thoughts. I used to say it's something a little bit harsher, but something like penny smart, dollar stupid. You want to save so much in the little things and you end up spending more on the big things. So in so many idioms, you



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find a penny that it's going to be fun. It's interesting because if you think about it also, how do you explain the new generations about the phone, for example. And how do you hang up? And what does hang up mean at all? Why use hang up to finish a phone call? Well, at some point, it's going to be the same with a penny. You're going to say, "What is a penny?" in a couple of years, maybe, or at least-- yeah, I'm starting to feel old. So I'm not sure I like this part.

VETO: 21:30

Your sticker analogy was really good. And you almost dated yourself there for sure, Fabio. I don't know. I was like, "Stickers, sticker books?" So we've got a little time left. Let's talk about some topics you're currently researching. What are you working on?

GÓMEZ-RODRIGUEZ:
21:46

Well, as you can hear, and how I feel like this passion has been projecting into things and to my answers. But I keep researching on inflation. One of the things that I'm researching on is how our expectations of inflation-- if you expect inflation to go up, doesn't mean inflation is going up right now. But if you expect it to go up later, that also is going to influence your decisions, right? So for example, if you think that the house market, if you're thinking you have an eye on one house and you feel that that house is going to be more expensive in a couple of years or months, you might think, "Okay, I'll buy it now." So expectations of inflation sometimes behave very similar to inflation. And even expectation about what's going to happen 10, 20, or 30 years ahead is important for today's economy. So it turns out that I've done some analysis and the behavior of inflation expectations seem to be in a way that they have long memory, like changes that happen in the 80s. We're still looking at it right now.

GÓMEZ-RODRIGUEZ:
23:06

So I'm trying to relate how changes in-- very long inflation expectation changes have influenced today's economic variables. So the fact that everyone collectively think that inflation is going to go up a little bit more than expected over the next couple of decades., is that influencing somehow today's decisions? Is that influencing somehow today-- so that's one of the things that I'm going to-- that I'm doing research on. The other thing that-- another topic that it's very interesting, especially right now, is the topic of uncertainty. Turns out that uncertainty is-- similar to when you're watching maybe videos on the internet, and you see that at the beginning, sometimes they're a little bit blurry because maybe the connection is not very good or the internet is not very fast, you still can see the video and eventually it touches up and it becomes very high definition and very nice. But at the beginning, it's blurry. Well, uncertainty does the same thing to the economy. When you have to make decisions and confronting uncertainty, it is more difficult to make decisions. So it could make you not be sure about your decisions and could slow you down a little bit, and even slow down the economy itself. So we are going to look at different sources of uncertainty and try to see what's common among all these uncertainty measures because there's uncertainty in financial markets. There's uncertainty in consumption, uncertainty for producers, uncertainty for the government, uncertainty, uncertainty, uncertainty. And so many measures, we want to try to understand is there something driving this uncertainty that is common for all these measures, and try to see what that is, what is that, and how is that influencing the economy. So those are the two topics that I'm most excited about. I still have some-- because of where I come from. I come from Costa Rica, which is a Latin American country. I'm always interested in trying to understand how US policies affect small open economies like Costa Rica. So that's something that I'm always interested in looking at. We've been talking a lot about monetary policy, interest rates, inflation, but also government spending, how debt



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could affect the economy, all of that are topics that I'm interested in. And I think I still have a few years of worth of research in front of me if those are the questions that I'm looking at. So yep, that's a long question to answer. Thankfully, I guess if you do research, you want to be able to have many topics rather than too few.

VETO: 26:04

Absolutely. And Fabio, you're the closest thing that I think we have to crystal ball, being an economist.

GÓMEZ-RODRIGUEZ:
26:12

That's a big honor, I guess. Big responsibility as well.

VETO: 26:19

Yeah. Well, thank you so much for talking with us today. It was great meeting you and chatting.

GÓMEZ-RODRIGUEZ:
26:24

Same here. I had a blast. And thank you so much for thinking of me. And whenever you have something else to talk about the economy, I'll be happy to try and see if I can figure it out myself.

VETO: 26:36

That was Fabio Gómez-Rodriguez speaking with us about consumer spending in 2025. This podcast is brought to you by iLLUminate, the Lehigh Business Blog. To hear more podcasts featuring Lehigh Business Thought Leaders or to follow us on social media, please visit business.lehigh.edu/news. This is Stephanie Veto, host of the iLLUminate podcast. Thanks for listening.