

# **Income or Consumption: Which Better Predicts Subjective Wellbeing?**

*Thomas Carver*

*Motu Economic and Public Policy Research*

*Arthur Grimes*

*Motu Economic and Public Policy Research and Victoria University of Wellington*

## **Paper Abstract:**

The positive relationship between income and subjective wellbeing has been well documented. However, work assessing the relationship of alternative material wellbeing metrics to subjective wellbeing is limited. Consistent with the permanent income hypothesis, we find that a consumption measure out-performs income in predicting subjective wellbeing. When objective measures of consumption are combined with self-assessments of a household's standard of living, income becomes insignificant altogether. We obtain our result utilising household-level data from Statistics New Zealand's *New Zealand General Social Survey* which contains a measure of material wellbeing called the *Economic Living Standard Index* that combines measures of consumption flows and self-assessments of material wellbeing.