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Online appendix: Disinflation burden-sharing milestones

Markup and labour share dynamics

In this section, we present the estimates of a simple autoregressive model of the markup, which we reparameterise as an error correction mechanism-like equation, so as to better highlight its long-run mean-reverting properties. Specifically, for both the United States and the euro area, we estimate the following equation:

$$\Delta mkup_t = c_1 + \alpha_1 * \Delta mkup_{t-1} + \gamma_1 * mkup_{t-1}^{level} + \varepsilon_t$$

In addition, the estimated equation includes dummies for the Covid-19 period and, for the euro area, also for the Great Financial Crisis. The long-run level of the markup is thus given by $-\gamma_1/c_1$.

This equation is very parsimonious, exploiting only the mean-reverting properties of markups over the long run. In particular, it does not include any terms to reflect the relationship between the markup and the phase of the business cycle. However, it may still help to assess whether the projected direction of the evolution of income distribution in 2023–24 is or is not consistent with what has been typically observed during past episodes of declining inflation.

Another possible limitation is that the equation does not include other material determinants of income distribution. While, in any long-run equilibrium, the markup should in theory be a constant, in both economies it has changed markedly in recent decades, reflecting a number of structural forces at play in those economies. For this reason, we estimate the equation above over two subsamples for each economy: (i) the full, longest sample (1970–2022), and a shorter one (2005–22 for the United States and 1985–2022 for the euro area). While the estimated coefficients are markedly different, the implied projections over the next few quarters are very similar, no matter which of the two versions is used.

The results are reported in Table A1. For the euro area equation, the ECM-like term is statistically and economically significant. The income distribution between workers and firms does tend to revert back to a constant value in the long run. For the United States, the ECM-like term is significant only over the shorter, post-2005 sample, signalling that the change in the equilibrium markup may have been more pronounced in this case, driven by more fundamental forces.

Markup model[1]

	Euro area		United States	
	Q1 1970–Q3 2022	Q1 1985–Q3 2022	Q1 1970–Q3 2022	Q1 2005–Q3 2022
Constant	3.55*	13.62***	2.01	21.66*
	(1.90)	(3.88)	(2.85)	(11.35)
$\Delta markup_{t-1}$	0.73***	0.61***	0.55***	0.34**
	(0.04)	(0.06)	(0.06)	(0.12)
$markup_{t-1}^{level}$	–0.04*	–0.13***	–0.02	–0.22*
	(0.02)	(0.04)	(0.03)	(0.11)
Covid dummy	√	√	√	√
GFC dummy	√	√		
Adj. R-squared	0.68	0.67	0.35	0.24
Prob (F-statistic)	0.00	0.00	0.00	0.00
N. observations	206	151	206	71

[1] Standard errors are reported in parentheses. */**/*** indicates significance at the 90%/95%/99% level.

Sources: OECD, *Economic Outlook*; authors' calculations.