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The Impact of Macroeconomic on Stock Return: Evidence from Companies Listed on the Indonesia Stock Exchange

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Abstract

The purpose of this study is to find the impact of macroeconomic (inflation, BI rates, economic growth, world oil prices, and the money supply) on stock return in Indonesia. A sampling of 251 listed companies listed on the Indonesia Stock Exchange (IDX) was carried out using a purposive sampling technique. The data used in this study is panel data, namely cross-section data and time-series data, for the period 2007-2017. While the data analysis technique uses panel data regression and processed by EViews Software. The results showed that inflation and the Rate does not significantly influence stock returns. While, economic growth, world oil price, and money supply significantly influence stock return. The result of our study gives the implication that macroeconomic variables must be controlled to maintain the stability of stock returns.

Keywords: Inflation, BI rates, economic growth, world oil prices, money supply, stock return

1. Introduction

Stock return is one of the factors that motivate investors to invest in return for funds invested by investors against the risks they bear. Investors need the information to reduce the risk of uncertainty condition. Global economic conditions are dynamic and difficult to predict, including various capital markets in a volatile world, these external conditions affect the psychological market on the Indonesia Stock Exchange. The capital markets are determined by several factors, including uncertainty of macroeconomic circumstances (Maharditya et al, 2018). The financial markets do not have complete information, therefore the investors constantly monitor macroeconomic development and monetary policy stance (Pal & Garg, 2019).

It has been argued that certain macroeconomic variables such as inflation, interest rate, money supply, industrial production, and exchange rate have a significant impact on stock prices (Erdem, Arslan, & Erdem, 2005). The previous study has proved that the macroeconomic variables such as interest rates, money supply, and foreign exchange rates, stock returns have a significant effect on companies on the Indonesia Stock Exchange (Assagaf, Murwaningsari, Gunawan, & Mayangsari, 2019).

In this present study, we use inflation, BI (Bank of Indonesia) rates, economic growth, world oil price, and money supply as precedent variables of stock return. We analyze the data from 2007 – 2017 of companies listed on the Indonesia Stock Exchange. The study about inflation conducted by Krisna & Wirawati, (2013) shows that the positive and significant effect of inflation on stock returns, different from the results of Tangjitprom, (2013) and Azar, (2013) which shows that the effect of inflation on negative stock returns is not significant. The exchange rate which is also often used as a reference for investors and economists regarding the condition of the fundamentals of a country's fundamentals is used as a

research reference. As research conducted by Al-abdallah & Aljarayesh, (2017) pointed out that the exchange rate does not significantly influence the index of a stock. but the results of research conducted by Amansyah (2013), Liauw (2013), Siliem (2012), Sisbintari, (2009) show that the exchange rate has a significant effect on the stock price index. Another difference is the result of the research by Gunawan & Wibowo, (2012) which shows the effect of the Rupiah / US \$ exchange rate on positive stock returns is not significantly different from the results of the research by Prasetyono, (2010), the results show that interest rates on stock return has negative and has no significant effect.

The results of research by Adam, et al. (2013) and Sisbintari, (2009) show that GDP has a significant effect on the movement of the Stock Price Index. But the results of research conducted by Kewal, (2012) show the opposite, that the existing GDP value does not significantly influence the Stock Price Index under study. The study conducted by Picha, (2017) found that money supply impact stock market, and world oil prices have a significant effect on stock return (Suwandy, 2014).

Based on the previous results it can be concluded that there is still a research gap in the results of studies that have been conducted so that it can be used as a basis for subsequent research. We also feel the need to measure macroeconomic variables and their effects on Stock Return in companies listed on the Indonesia Stock Exchange in 2007 - 2017). Therefore, the research questions of our study are :

1. Does inflation effect stock return?
2. Does BI rate effect stock return?
3. Does economic growth effect stock return?
4. Does the world oil price effect stock return?
5. Does the money supply effect stock return?

2. Literature Review

2.1 Stock Return

Return is the result obtained from the investment or the level of profit enjoyed by investors for an investment made (Jogiyanto, 2000). Stock Return according to (Hanafi & Halim, 2005) is mentioned as stock income and is a change in the value of stock prices in the period. The reward for investing in the stock market is the stock return which is one of the factors that motivates investors to invest and is also a reward for the courage of investors to bear the risk of their investments (Tandellin, 2010). Furthermore, according to (Samsul, (2006) return can be defined as income expressed as a percentage of the initial of capital in investment. Investment income of the stock means as the profit gained from buying and selling shares, the profit is called capital gain and the loss is called a capital loss.

One of the goals of investors investing according to Ang (1997: 202) is to get a return, without the level of benefits enjoyed from an investment, of course, investors will not make an investment, all investments have the main goal of getting a return. The concept of return or return mentioned by (Ang 1997: 97) is the level of profits enjoyed by investors for an investment made. Stock returns are income earned by shareholders as a result of their investment in certain companies. Stock returns can be divided into two types (Jogiyanto 2000), namely realized returns and expected returns.

2.2 Macroeconomic

2.2.1. Inflation

Inflation means as continuous increase in the general level of prices of goods and services over time or, in another term too much money chasing too few goods (Akinsola & Odhiambo, 2017). Another opinion also said that inflation can be defined as a condition that indicates the weakening of purchasing power and will be followed by the declining in the real of currency value of a country (Khalwaty, 2000). According to Fahmi, (2012) inflation is defined as an event that illustrates the situation and conditions where goods have increased and the value of the currency has weakened. If this happens continuously it will result in a deterioration of the overall economic condition and be able to shake the political stability of a country. According to Megaravalli & Sampagnaro, (2018) said that Inflation of a country is determined by the alteration in the consumer price index. The higher of the inflation, there will be happen an obvious increase in the living expenses and shifting of resources from investments to consumption. High inflation has an effect on corporate profits with the rise in the cost of borrowing of the organizations, which in turn forces dividend downward and thereby lowering stock prices. Therefore, it can be said that the equity prices are negatively related to inflation. According to Jumria, (2017) also said that the high inflation will be able to reduce stock prices, while low inflation will result in slow economic growth, and ultimately stock prices will also move slowly.

2.2.2. The Rate

In conventional banks, interest rates as stated by Kasmir, (2003) can be interpreted as a remuneration provided by banks to customers who buy or sell their products. Interest can also be interpreted as the price to be paid to customers (who have deposits) and must be paid by customers to banks (customers who get loans). Another understanding, the interest rate can be distinguished macro, namely the nominal interest rate (nominal

interest rate) and the real interest rate (real interest rate). The nominal interest rate is the interest rate that can be observed in the market, that is, the interest rate paid by a bank without accounting for inflation. Whereas, the real interest rate is a concept that measures interest rates by measuring returns that have been reduced by inflation, which shows an increase of the purchasing power of people in which inflation has been taken into account (Mankiw, 2003). Generally, the interest rate can be also considered as capital cost, or the price that must be paid for the use of money for a period of time. The interest rate is called as the cost of borrowing money (O. Afolabi & Abu Bakar, 2016).

2.2.3. Economic Growth

Economic growth can be said as process by which an increase in real gross national product or real national income (Untono, 2015). Economic growth illustrates an increasing in living standards that can be measured by real output per person. One indicator of a country's economic growth is the Gross Domestic Product (GDP) (Jumria, 2017). If economic growth improves; the purchasing power of the people will increase as well and this gives the company an opportunity to increase its sales. With the increase in sales, the opportunity to make a profit will also increase (Tandellin, 2010).

2.2.4. World Oil Prices

Several factors are affecting investors such as inflation rates, fluctuations in the stock market and commodities including oil prices (Raraga, Chabachid, & Muharam, 2012). Crude oil is one of the results mining which is a factor driving the world economy. Industries around the world still rely on fuel oil which is a processed crude oil production as a raw material for production factors (Pardede, Hidayat, & Sulasmiyati, 2016). According to Bjornland, 2008 (in Raraga et al., 2012) said that rising world oil prices would drive up the stock price index. This is because rising world oil prices drive the economy resulting in an increase in aggregate demand and increased welfare. With a high level of community welfare, the community tends to invest in-stock instruments.

2.2.5 Money Supply

Monetary policy plays an important role to maintain the stability of money circulation, conveyed by Anggarini, (2016) that money has a central role in the modern economy, on the one hand if too much money circulates in the community resulting in a lot of demand. Changes in money supply may will affect the stock prices through the changes of portfolio substitution or inflationary expectations (Erdem et al., 2005). A large amount of money in circulation is very dependent on economic growth, if the economy is more advanced, the portion of the use of currency (paper money and coins) is getting smaller, replaced by demand deposits (Manurung & Rahardja, 2004).

The money supply according to Manurung & Rahardja, (2004) is the overall value of money in the hands of the community. The money supply in the narrow sense (narrow money) is the amount of money in circulation consisting of currency and demand deposits. (Manurung & Rahardja, 2004) state that technically the money supply is money that is really in the hands of the community. The development of the money supply reflects the development of the economy. A growing and developing economy causes the money supply to increase.

3. Hypotheses and Research Model

The study conducted by Piliukus, (2010) also show the result that indicators of macroeconomic have the impact on stock market performance in the short and long run in baltic states. The study conducted by Hsing, (2011) in Croatia showed that macroeconomic variables has a relationship on stock market. To maintain a healthy stock market, the authorities or government would need to pursue the economic growth, fiscal prudence, moderate increase in the money supply, a relatively low interest rate or inflation rate.

Economic growth is the process by which an increase in real gross national product or real national income. Thus, the economy is said to grow or develop when real output growth occurs. If the economic growth improves, the purchasing power of the people will also increase and this gives an opportunity for the company to increase its sales. With the increase in

sales, the opportunity to earn profits will also increase (Tandellin, 2010). Changes in world oil prices that tend to rise, the economy and stock markets also tend to experience a decline. However, if seen the effect will be different for oil exporting countries and oil importers, because for oil exporting countries the increase in world oil prices shows the transfer of welfare from oil importing countries to oil exporting countries. On the contrary, what happens for oil importing countries. This shows that oil prices can affect a country's economy, so oil prices are a reflection of changes in economic conditions and changes in the stock market (Sutrisno, Yuniartha, & Susilowati, 2000). The study conducted by (Pardede et al., 2016) also found that world crude oil prices and exchange rates (exchange rates) have a partial effect on the stock price index of the mining sector in Indonesia and Singapore.

Based on the literature, we proposed the conceptual model below :

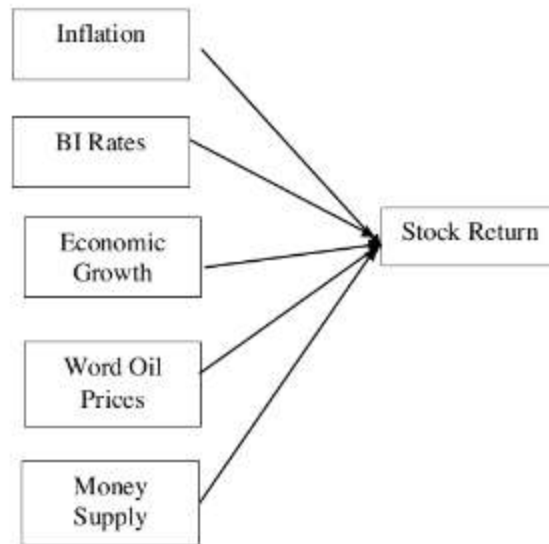


Figure 1: Conceptual Framework

4. Research Methodology

4.1. Population and Sample

This study uses a quantitative approach aimed at describing and testing the hypotheses of variables: Inflation (X1), Interest Rates (X2), Economic Growth (X3), World Oil Prices (X4), Amount of Money Supply (X5), Stock Returns (Y) and Exchange Rate (W) as moderating variables with research objects on the Indonesia Stock Exchange (IDX). The population in this study are 618 listed companies on the Indonesia Stock Exchange. For this study, a sampling technique based on research objectives (purposive sampling) was used. The basis for sampling began in 2007-2017 based on the condition of the global economic crisis in 2008. This was revealed from the Bank Indonesia report (2008) as follows:

- The rupiah exchange rate against the US dollar began to depreciate in early October 2008, starting from Rp. 9,555, - / USD tends to rise and continue to increase until mid-November 2008. Even the exchange rate of the rupiah against the US dollar on November 19, 2008 reached Rp. 11,957, - / USD (BI:

2008). The weakening of the rupiah against the US dollar is due to the many requests for the US dollar by speculators aiming for profit.

- At the end of 2008 the impact of the global crisis began to be felt. Concerns that there will be economic turmoil in the form of a weakening Rupiah exchange rate, inflation which will raise the BI rate can affect the purchasing power of the real sector.

The issuers sampled in the study are listed companies since 2006 and issuers that have complete stock price data for the years 2007-2017, namely 251 issuers.

4.2. Hypotheses Testing

4.2.1 The F Testing

The F test is used to test whether the independent variable jointly influences the dependent variable. Testing all regression estimation coefficients together is done with the F test. In the F test where the data used is panel data, the F test is based on the suitability of the model used. This test can be done by looking at the p-value probability. If the probability p-value < α

(0,1) then H0 is accepted and Ha is rejected, which means the independent variable influences the dependent variable. Conversely, if the probability p-value > α (0.05) then H0 is

rejected and Ha is accepted, which means that the independent variable simultaneously has no effect on the dependent variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.297213	0.066327	4.481005	0.0000
X1	-0.239165	0.259147	-0.922893	0.3561
X2	-0.096441	0.542045	-0.177920	0.8588
X3	-1.148823	0.631609	-1.818885	0.0689
X4	-0.001023	0.000206	-4.957393	0.0000
X5	-1.08E-07	2.20E-08	-4.928078	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.115900	0.0285
Idiosyncratic random			0.676518	0.9715
Weighted Statistics				
R-squared	0.001878	Mean dependent var	0.023298	
Adjusted R-squared	0.001727	S.D. dependent var	0.677103	
S.E. of regression	0.676518	Sum squared resid	15161.02	
F-statistic	12.46253	Durbin-Watson stat	2.223650	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.001824	Mean dependent var	0.051436	
Sum squared resid	15604.30	Durbin-Watson stat	2.160481	

Table 1: Regression Weight Full Model

Based on the table above, the F test results show that the F-statistic value is 12.46253 and the prob (F-Statistic) is 0.00 million. By using a significance level of 0.1 or 10%, the prob (F-Statistic) value < 0.1. So it can be concluded that H0 is accepted and Ha is rejected, meaning that there is a simultaneous influence of inflation, BI rates, economic growth, world oil prices, and the money supply to stock returns.

The panel data regression equation on the random effect model is as follows:

$$Y = 0.297213004143 - 0.239164840868X1 - 0.096440513251X2 - 1.1488231715X3 - 0.00102290236311X4 - 1.08207407927X5$$

From the regression equation it can be concluded several things as follows:

1. The value of the constant coefficient of 0.297213004143, meaning that if the inflation variable (X1), BI rates (X2), economic growth (X3), world oil prices (X4), the money supply (X5) is zero, then the amount of stock returns is 0.297213004143.

2. The inflation variable regression coefficient (X1) is negative, which is equal to - 0.239164840868, meaning that any 1% increase in inflation is predicted to reduce stock returns by - 0.239164840868 assuming the other variables are fixed.

3. The regression coefficient of the variable BI rates (X2) is negative, which is equal to - 0.096440513251, meaning that

any increase in BI rates by 1% is predicted to reduce stock returns by - 0.096440513251 assuming the other variables are fixed.

4. The regression coefficient of the variable economic growth (X3) is negative, which is equal to - 1.1488231715, meaning that every 1% increase in economic growth is predicted to reduce stock returns by - 1.1488231715 assuming the other variables are fixed.

5. The regression coefficient of the world oil price variable (X4) is negative, that is - 0.00102290236311, meaning that every 1% increase in world oil prices is predicted to reduce stock returns by - 0.00102290236311 assuming the other variables are fixed.

6. The variable regression coefficient of the money supply (X5) has a negative value of - 1.08207407927, meaning that any increase in the money supply by 1% is predicted to reduce stock returns by - 1.08207407927 assuming the other variables are fixed.

4.2.2 The T Testing

Based on the testing of the model, the results in which the data in this study follow the random effect model as shown in table 4.8 obtained the t-statistic values for each independent variable are as follows :

Hypotheses	Coefficient Regression	T-Statistic	Sig. Probability	The Result
X1→Y	-0.239165	-0.922893	0.3561	Not Accepted
X2→Y	-0.096441	-0.177920	0.8588	Not Accepted
X3→Y	-1.148823	-1.818885	0.0689	Accepted
X4→Y	-0.001023	-4.957393	0.0000	Accepted
HX5→Y	-1.08E-07	-4.928078	0.0000	Accepted

Table 2: T Random Effect Model

Based on the data above, testing for inflation variables, BI rates, economic growth, world oil prices, and the money supply to stock returns results in:

1. Influence of inflation (X1) on stock returns with a p-value of 0.3561 indicates that p-value > 0.1 (10%), then H0 is rejected and Ha is accepted. This means that inflation does not have a

significant effect on stock returns.

2. Effect of BI rates (X2) on stock returns with a p-value of 0.8588 indicates that p-value > 0.1 (10%), then H0 is rejected and Ha is accepted. This means that BI rates have no significant effect on stock returns.

3. The effect of economic growth (X3) on stock returns with a p-value of 0.0689 indicates that p-value < 0.1 (10%), then H0 is accepted and Ha is rejected. This means that economic growth has a significant negative effect on stock returns.

4. The effect of world oil prices (X4) on stock returns with a p-value of 0.0000 indicates that the p-value < 0.1 (10%), then

H0 is accepted and Ha is rejected. This means that world oil prices have a significant negative effect on stock returns.

5. The effect of the money supply (X5) on stock returns with a p-value of 0.0000 indicates that the p-value < 0.1 (10%), then H0 is accepted and Ha is rejected. This means that the money supply has a significant negative effect on stock returns.

Based on table 4.8, the results of the T test after testing the influence of inflation variables, BI rates, economic growth, world oil prices, and the money supply to stock returns, can be described as follows.

conceptual model below :

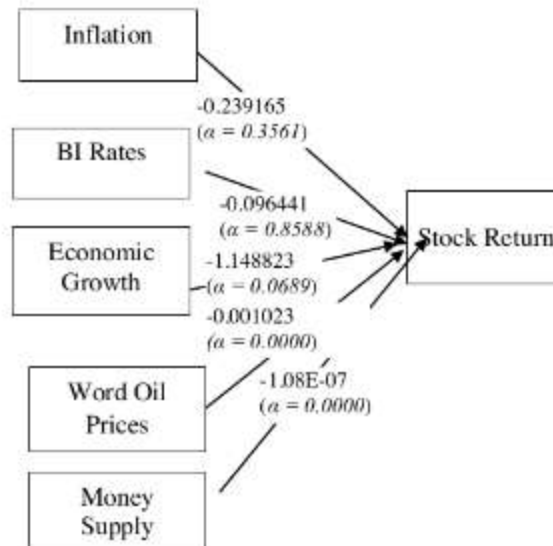


Figure 2: The Research Model Result

4.2.3. Coefficient of determination (R2)

The coefficient of determination test (R2) is used to find out how much the capacity of the model or the independent variable is to explain changes in the dependent variable. The coefficient of determination has a value between 0 to 1. The smaller the value, then indicates the limitations of the ability of the model formed to explain changes in the independent variable, conversely if the value of R2 is close to 1, it means that the model formed is able to explain variations in the dependent variable perfectly.

Based on the research result, it appears the coefficient of determination (R2) as an Adjusted R-squared of 0.555621 shows that the ability of the model formed can explain variations in stock returns. The model in this study where macroeconomic variables are able to explain the effect of 55.563% on stock returns, the remaining 44.437% is explained by other variables not included in the regression model of this study.

5. Discussion

According to hypotheses results show that inflation has no significant effect on stock returns. It means, an increase in stock return will not be followed by a decrease in inflation. High inflation rates usually occur due to overheated economic conditions. The above research results support the findings

of research conducted by (Setyaningrum & Muljono, 2016) and (Setyaningrum & Muljono, 2016) where inflation has no significant effect on stock returns.

The result of hypothesis two show that Bank Indonesia (BI) rates have an insignificant effect on stock returns. This means that the reduction in BI rates is not followed by an increase in stock returns. The influence of interest rates on stock returns indicates that the increased interest rates imposed by Bank Indonesia have an impact on the decisions of shareholders and potential investors in investing in company shares traded on the Indonesia Stock Exchange (IDX). Increased interest rates affect investor interest in investing in all real sectors or safer financial markets such as deposits. Increased interest rates are seen by investors as an increased investment risk. With an increased level of risk, it is also expected to produce higher returns, but the investment decisions that occur tend to be speculative. The tendency of investors to buy Bank Indonesia Certificates will negatively impact the composite stock price index on the exchange.

Economic growth has a significant negative effect on stock returns. It means that an increase in stock returns will be followed by a decline in economic growth. The effect of economic growth on stock returns with a p-value of 0.0689 indicates that the p-value < 0.1 (10%). This means that economic growth has a significant negative effect on stock returns. With the regression coefficient value of the variable economic growth is negative which is equal to -1.1488231715, meaning that any increase in the economic growth of 1% is predicted to reduce stock returns by -

1.1488231715 assuming the other variables are fixed.

Economic growth or known as Gross Domestic Product (GDP), including factors that affect changes in stock prices. The estimated GDP will determine economic development. GDP comes from the number of consumer goods that are not included as capital goods. The increasing number of consumer goods causes the economy to grow, and increases the scale of the company's sales turnover, due to the consumptive society. With the increase in sales turnover, the company's profits also increased. Increased profits cause the company's stock prices to also increase, which has an impact on stock price movements (Kewal, 2012). This study reinforces research conducted by (Prasetiono, 2010) found that economic growth in the long-run has a negative effect on stock prices.

World oil prices (X4) have a significant negative effect on stock returns. That is, an increase in stock returns will be followed by a decline in world oil prices. The effect of world oil prices on stock returns with a p-value of 0.0000 indicates that the p-value <0.1 (10%). This means that world oil prices have a significant negative effect on stock returns. With the regression coefficient value of the world oil price variable having a negative value of - 0.00102290236311, it means that every 1% increase in world oil prices is predicted to reduce stock returns by - 0.00102290236311 assuming the other variables are fixed.

World oil prices as one of the factors affecting the stock exchange the world including in Indonesia which has a global economic impact in addition to the rupiah exchange rate. High world oil prices can have an indirect effect, which is affecting the global market and further on the IDX. Indirect effects can also occur, namely high world oil prices will further create imbalances in world oil prices and domestic oil prices. The impact is encouraging smuggling of oil from inside and outside the country and will subsequently have an impact on the national economy and affect the performance of the stock exchange. The results of this study are in line with research conducted on the influence of macroeconomic variables, gold prices and world oil prices on the JCI study on the Indonesia Stock Exchange 2009-2013 conducted by Gumilang, (2014) where the partial findings of oil prices have a significant negative relationship to the JCI. Buyuksalvarci, (2010) which examines the relationship between the Turkey stock index (ISE-100) and seven macroeconomic variables, namely oil prices have a negative impact on the Turkey stock index (ISE-100). Oil prices are one of the factors that affect prices shares in some sectors where rising oil prices will have an impact a company's performance. Rising oil prices will increase company costs and will affect the company's revenue.

The research results our study are in line with a number of studies that have been conducted where oil prices affect stock returns (Prasetiono, 2010). (Narayan & Narayan, 2009) in their research stated that there are two things how oil prices can affect stock prices. First, oil is considered as a key in the production process. An increase in oil prices increases the cost of production, where the increase in production costs will push the price of the joint stock. Second, oil prices also affect stock returns through a discount rate that has a negative effect on stock returns. Research on oil prices and stock prices conducted by Kilian & Park, (2009) that world oil prices had a positive impact on stock market index movements. This means that an increase in world oil prices will drive up the price of mining company shares. This will encourage an increase in the stock price index. The same result was shown by Bjornland (2008) about the movement of the stock price index conducted in Norway. The results

showed that an increase in world oil prices would drive up the stock price index.

The money supply has a significant negative effect on stock returns. It means that, an increase in stock returns will be followed by a decrease in the money supply. The effect of the money supply (X5) on stock returns with a p-value of 0.0000 indicates that the p-value <0.1 (10%). This means that the money supply has a significant negative effect on stock returns. With a variable regression coefficient of the money supply (X5) negative value of - 1.08207407927, meaning that any increase in the money supply by 1% is predicted to reduce stock returns by - 1.08207407927 assuming the other variables are fixed. This results also supported by Tiryaki, et al (2019) that said that money supply can effect stock return.

6. Conclusion

Inflation has a negative and does not significantly effect on stock returns on companies listed on the Indonesia Stock Exchange in the 2007-2017 period. BI rates, economic growth, world oil prices, and money supply has a negative and significant effect on stock returns. The results of this study indicate that the variable macroeconomic variables namely, inflation, BI rates, economic growth, world oil prices, and the money supply simultaneously have a significant effect simultaneously on stock returns on companies listed on the Stock Exchange in the 2007-2017 period. This implies that the development of macroeconomic variables must be controlled to maintain the stability of stock returns so that investment in the stock market can grow and be attractive to investors in the stock market

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