

Exploring the Relationship between Financial and Macroeconomic Factors with Manufacturing Stock Prices

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ABSTRACT

Stock is a promising investment option for investors, encouraging the need for an in-depth understanding of the impact of internal and external factors on share price movements. This research aims to analyze the influence of liquidity, profitability, inflation, and exchange rates on stock prices in the manufacturing sector. With a quantitative approach, the research uses secondary data. It applies a purposive sampling method to select a sample of manufacturing companies that meet the criteria for being listed companies on the Indonesia Stock Exchange during the 2018-2023 period by applying the Fixed Effect Model. The analysis was carried out using the Fixed Effect Model (FEM) in selecting the best model where FEM takes into account time-invariant heterogeneity across companies, effectively controlling for unobserved variables that differ between companies but remain constant over time. The research results show that profitability and inflation have a significant influence on stock price movements, while liquidity and exchange rates do not have a significant influence. The implications of these findings provide a deeper look into the factors influencing share prices in the manufacturing sector, contributing to a better understanding of investment decision-making.



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1. Introduction

The growth of Indonesia's economy is intricately linked to the capital market, which plays a crucial role in driving the country's progress. Companies aiming to expand often require significant capital, but loans or foreign investments may only sometimes suffice. Therefore, many firms resort to capital market solutions to raise funds. This market acts as a bridge that connects investors and companies through various financial instruments like stocks, bonds, and mutual funds. Among these, stocks are a popular choice for investors due to their potential for high returns.

The manufacturing industry, the backbone of consumer goods production, receives special attention in economic growth. Its health indicates the overall economic state, making it an attractive option for investors looking to participate in the capital market. In this regard, evaluating company performance becomes critical to understanding success factors (Ramadhani & Zannati, 2018).

It is undeniable that a company's stock price reflects its performance. Financial

performance analysis is an essential foundation for evaluating a company's performance. The stakeholders involved in a company's life, such as owners, management, lenders, and investors, have varying interests regarding the company's financial situation and progress. Investors, for instance, seek high returns while also considering associated risks. To meet this dynamic, companies in the capital market must endeavor to maintain and enhance their value to attract potential investors (Ramadhani & Zannati, 2018).

The stock price represents the value a company assigns to each stock. As trading values fluctuate, stock prices can rise, generating additional income for the corporation. This income can then be allocated towards dividends, benefitting investors. Market interactions between buyers and sellers dictate these fluctuations, with changes occurring within seconds. Ultimately, investors who make rational decisions and achieve profits are satisfied with their results. Stock prices can significantly impact a company's profits and reputation. A rise in stock prices can bring in capital gains and bolster the company's image, making it easier to secure external funding. Conversely, a drop in stock prices can lead to capital losses and decrease investor interest in the company's stock (Ramadhani & Zannati, 2018).

Several factors, including demand and stock availability, influence stock price fluctuations. These factors can be classified into two categories: internal and external. Internal factors are directly linked to the company's performance and can be analyzed using financial report data. Such data is crucial for potential investors to decide whether to invest, hold, or sell their investments (Cipta & Laily, 2019). This study focused on two internal factors: liquidity and profitability.

Liquidity and profitability are vital internal factors affecting a company's stock performance. Liquidity, often measured by the current ratio (CR), reflects a firm's ability to cover its short-term obligations. A higher liquidity ratio indicates that a company can efficiently manage its working capital, ensuring smooth operational activities, which can enhance investor confidence (Kosim & Safira, 2020). Theoretical frameworks, such as the Liquidity Preference Theory, suggest that firms with better liquidity are seen as less risky as they are more capable of meeting immediate financial obligations. On the other hand, external factors unrelated to the company's condition can impact its profitability. These include inflation, exchange rates, interest rates, and political conditions. In this study, we will focus on inflation and the exchange rate. Economic factors such as these can systematically influence a company's profitability. Changes in the economy can have a similar effect on the company's stock performance as well (Cipta & Laily, 2019).

Inflation, for instance, can lead to a general increase in prices. Companies using imported raw materials in their production process will incur higher costs, ultimately decreasing profits. As a result, investors may become less interested in investing their capital in the company (Stefanus & Robiyanto, 2020; Jalil et al., 2023). Similarly, the exchange rate can also impact a company's profitability. For example, a depreciation of the rupiah exchange rate against the dollar can result in higher prices for imported goods. This, in turn, increases the costs incurred by companies that rely on imported raw materials, ultimately leading to a decrease in profits. Inflation can also affect investor interest in the company (Anggriana & Paramita, 2020; Jalil et al., 2023).

Several studies have examined the relationship between stock prices and factors such as liquidity, profitability, inflation, and exchange rates. While these studies offer valuable insights, their findings often need to be more consistent, highlighting a significant gap in understanding how these factors interact in different sectors and economic conditions. For example, Widiatoro & Khoiriawati (2023) found that liquidity does not significantly impact stock prices, while profitability has a positive influence. Conversely, Moi et al. (2023) reported

that liquidity and profitability positively affect stock prices, suggesting that the role of liquidity might vary across industries or economic periods. This inconsistency points to a need for further research to clarify how liquidity, as a measure of short-term financial health, interacts with stock price movements, particularly in the manufacturing sector, where working capital management is critical.

Regarding external factors, Widodo & Fadillah (2022) found that inflation does not significantly influence stock prices, while exchange rates do. However, Pratama & As'ari (2023) reported that interest and exchange rates can partially impact the Composite Stock Price Index. Meanwhile, Jalil et al. (2023) found that inflation significantly affects stock prices, but exchange rates do not. These contradictory findings emphasize the importance of further investigation into how inflation and exchange rates, particularly in the manufacturing sector, influence stock prices.

This research aims to fill these gaps by providing a more comprehensive analysis of internal (liquidity and profitability) and external (inflation and exchange rates) factors in the manufacturing sector. Focusing on a specific sector and period (2018-2023), this study seeks to offer more robust insights into the dynamics influencing stock prices, address the conflicting findings in the literature, and offer more precise guidance for investors.

This research is designed to complete and deepen understanding of several aspects not covered in previous research. First, this research uses the latest data up to the second quarter of 2023 to provide a more up-to-date picture. Second, the independent variables used involve the current ratio, net profit margin, inflation, and the Rupiah exchange rate against the US dollar, providing a more comprehensive approach than previous research, which tends to examine internal and external variables separately (Jalil et al., 2023; Moi et al., 2023; Widiatoro & Khoiriawati, 2023). Third, the differences in findings in previous research encouraged the author to continue this research to explore the factors that influence stock prices. The results of this research are expected to provide a deeper understanding of how companies measure the impact of internal and external factors on stock prices. Apart from that, these findings can be a basis for stakeholders to make more competitive decisions to maintain company sustainability.

2 Literature Review

2.1 Company Stock Price

The stock price is a vital indicator for determining ownership or participation in a company, and it serves as a gauge for the success of its management. A steady increase in stock price often suggests effective management and successful operational practices, attracting investors and potential investors. The stock price reflects a company's overall performance, with solid performance correlating to a higher company valuation and an elevated stock price. According to Budiman (2007), fluctuations in stock prices are influenced by numerous factors, categorized as internal or external. Internal factors encompass management decisions, internal policies, and overall company performance, while external factors include economic conditions, government policies, inflation, and political stability.

Conversely, a low stock price may indicate room for company performance improvement. Investors typically favor companies with higher values, and their decisions and actions can impact potential increases in stock prices. Ultimately, a company's stock price is closely linked to its performance. In research, the closing price obtained at the end of specific periods, typically the fiscal year's close, is the commonly used stock price, as highlighted by Fatmawati & Widyawati (2017). This metric provides a snapshot of a company's financial standing and is valuable for assessing its market performance.

2.2 The Effect of Current Ratio on Stock Prices

The Liquidity Preference Theory, introduced by John Maynard Keynes, can explain the relationship between liquidity and stock prices. This theory posits that investors prefer liquidity because it reduces risk, especially during uncertain economic periods. Companies with high liquidity are seen as less risky because they can quickly meet short-term obligations, which improves their financial stability. When investors perceive a company as financially stable, they are more likely to invest in its stock, increasing demand and stock prices.

Additionally, the Signaling Theory explains that companies with strong liquidity positions send positive signals about their financial health to the market. A high Current Ratio indicates that the company can effectively manage its working capital, boosting investor confidence. Investors interpret high liquidity as a sign that the company can navigate short-term financial challenges, which increases their willingness to invest.

Despite these theoretical foundations, empirical studies offer mixed results. While Pratiwi (2016) found that the Current Ratio does not significantly influence stock prices, suggesting that high liquidity might not always reflect future profitability or growth potential, Santoso & Junaeni (2022) the better the value of the company, the more interested investors will be to invest their shares to the company. The purpose of this study is to elaborate and analyze the effect of probability, leverage, firm size, liquidity and firm growth on firm value. The main goal of the company is to maximize the value of the company, so the welfare of the shareholders will also increase. In this study, the authors use price book value (PBV) argue that a robust Current Ratio can positively affect stock prices by enhancing investor confidence in the company's ability to meet its financial obligations.

H1: Current Ratio influences stock prices

2.3 The Effect of Net Profit Margin on Stock Prices

The Net Profit Margin (NPM) is a critical profitability ratio that measures how much net income is generated as a percentage of revenue. It indicates the efficiency of a company in managing its costs and generating profit from its sales. Theoretically, companies with higher profitability ratios are seen as more attractive to investors, as they signal financial health and effective management. This is supported by the Profitability Signaling Theory, which suggests that higher profitability signals strong performance and stability to investors, potentially leading to increased stock prices.

From the perspective of Agency Theory, profitability, reflected in the NPM, also plays a role in mitigating agency conflicts between shareholders and management. Higher profitability means the company is performing well, thus aligning the interests of shareholders and management. Investors may view a strong NPM as a positive indicator of a company's ability to generate returns, encourage investment, and increase stock prices.

Despite these theoretical foundations, empirical research offers varying results regarding the relationship between NPM and stock prices. For example, Sha (2017) found that NPM does not significantly impact stock prices, suggesting that profitability alone might not be a sufficient determinant of stock price movements. On the other hand, Hutami (2012) concluded that NPM positively and significantly affects stock prices, aligning with the Profitability Signaling Theory. Additionally, Muliadi et al. (2016) discovered a negative and insignificant effect of NPM on stock prices in manufacturing companies, indicating that other factors beyond profitability, such as market conditions or investor sentiment, may also influence stock prices.

H2: Net Profit Margin influences stock prices.

2.4 The Effect of Inflation on Stock Prices

Inflation refers to the general rise in the prices of goods and services in an economy over time, which erodes the purchasing power of money. The relationship between inflation and stock prices is complex and influenced by several economic mechanisms. One central theoretical framework that explains this relationship is the Fisher Effect, which posits that nominal interest rates adjust one-for-one with expected inflation. According to this theory, nominal interest rates also increase when inflation rises to maintain accurate interest rates. For businesses, higher inflation can increase the cost of borrowing, reduce consumer purchasing power, and impact profit margins, which may affect stock prices.

Another relevant framework is the Discounted Cash Flow (DCF) Model, where the value of a stock is based on the present value of expected future cash flows. Inflation can influence stock prices through this model by increasing the discount rate (interest rates rise with inflation), reducing the present value of future cash flows. Higher inflation also reduces disposable income, potentially decreasing consumer demand and corporate earnings. As a result, inflation may lead to lower stock prices for non-financial companies due to lower profit expectations.

However, specific sectors like banking may benefit from rising inflation. As noted by Ernayani et al. (2017), inflation often leads to higher interest rates, which can enhance the profitability of banking companies by increasing interest income on loans. This profitability can attract investors, leading to higher stock prices for banking stocks as investors anticipate more substantial returns. Empirical studies show mixed results regarding the effect of inflation on stock prices. Wardani & Andarini (2016) found that inflation significantly affects stock prices by reducing profit margins for companies that cannot pass increased costs to consumers. Similarly, Mokhova & Zinecker (2014) argued that inflation can increase the cost of equity, making certain investments less attractive, thereby affecting stock prices negatively. Inflation-induced uncertainty can also increase credit risk, reducing investor confidence and declining stock market performance.

H3: Inflation affects stock prices.

2.5 The Effect of Exchange Rates on Stock Prices

The exchange rate represents the value of one country's currency relative to another, serving as a vital determinant of the cost of foreign goods and services and the competitiveness of domestically produced goods in international markets (Lintang et al., 2019). A fluctuation in exchange rates can significantly affect a company's profitability, especially in industries reliant on imported materials or with substantial export activities.

Theoretically, the Purchasing Power Parity (PPP) theory offers a framework for understanding the relationship between exchange rates and stock prices. According to the PPP theory, exchange rates between two countries are in equilibrium when their purchasing power is equal. A depreciation in the domestic currency increases the price of imports, leading to higher production costs for companies that rely on imported goods, reducing profitability. Conversely, it can make exports more competitive abroad, potentially increasing revenue for exporters.

The Flow-Oriented Model of exchange rates further posits that currency movements directly influence a company's cash flows, affecting stock prices. In this model, a domestic currency depreciation increases the cost of imported raw materials and services, which could reduce profit margins for import-dependent firms. As profitability declines, investors may perceive the company as less attractive, resulting in a decline in stock prices. Conversely, firms that export goods may benefit from a weaker domestic currency as their products become

cheaper in foreign markets, potentially leading to higher sales and stock prices.

Empirical evidence provides mixed results on the impact of exchange rates on stock prices. Türsoy (2017) found that exchange rates do not significantly impact stock prices, suggesting that investors may disregard short-term fluctuations in exchange rates, focusing instead on broader economic indicators. This view aligns with the Efficient Market Hypothesis (EMH), which suggests that asset prices, including stock prices, fully reflect all available information. If exchange rate movements are anticipated or considered in market prices, they may not significantly alter investor behavior.

However, other studies, such as those by Ilmi (2017) and Saputra (2019), indicate that exchange rates negatively affect stock prices, particularly in sectors heavily reliant on imports. A weakening of the domestic currency increases the cost of foreign goods, reducing profit margins and potentially leading to a decline in stock prices. This finding suggests that the sensitivity of stock prices to exchange rate fluctuations can vary by industry and the company's exposure to international markets.

H4: Exchange rates influence stock prices.

3. Research Method

The selection of manufacturing companies in this research is based on the vital role of the manufacturing sector in the Indonesian economy. In addition, manufacturing companies, especially those listed on the Indonesia Stock Exchange, are susceptible to various internal and external factors such as liquidity, profitability, inflation, and exchange rates, which are the main focus of this research. Dependence on local and international markets makes manufacturing companies ideal subjects for analyzing stock price fluctuations.

This study's choice of quarterly data provides more frequent updates than annual data, providing a more detailed and timely picture of financial performance and stock price movements. With higher data frequency, you can monitor how variables such as liquidity, profitability, inflation, and exchange rates affect stock prices in more depth. In addition, quarterly data makes it possible to capture short-term economic cycles and seasonal variations that affect manufacturing companies. Reporting macroeconomic indicators, such as inflation and exchange rates, which are generally presented quarterly, also makes quarterly data more consistent and relevant to analyze alongside company data.

The total number of observations in this study is 132, which results from collecting quarterly data from six companies for five years, from the first quarter of 2018 to the second quarter of 2023. The calculation is six companies multiplied by 22 quarters, resulting in 132 observations. Although the manufacturing sector has many companies listed on the Indonesia Stock Exchange, this research only involved six companies selected based on strict selection criteria. These criteria include the availability of consistent and complete financial data for each quarter during the 2018–2023 research period. Many companies did not have complete financial reports or were not published consistently, so they were excluded from the research sample—the selected company, such as PT. Unilever Indonesia, Tbk (UNVR) and PT. Mayora Indah, Tbk (MYOR) is a large company with a significant market share to represent broader industry trends. This focus on large, stable companies also helps minimize external bias that may arise from smaller or less stable companies. Although only six companies were selected from the large manufacturing sector, this selection was made to ensure better data quality and a more in-depth analysis of the variables studied.

In data analysis, this research uses a panel data regression model to evaluate the influence of independent variables, namely Current Ratio (CR), Net Profit Margin (NPM), Inflation (IFL), and Exchange Rate (ERT), on the dependent variable stock price (SP). By combining

the previous framework, the mathematical model of this research can be described in detail.

$$SP_{it} = \beta_0 + \beta_1 CR_{it} + \beta_2 NPM_{it} + \beta_3 IFL_{it} + \beta_4 ERT_{it} + \epsilon_{it}$$

4. Results and Discussion

4.1 Descriptive Statistics

The results of descriptive statistics can be used to draw several meanings and conclusions regarding the observed variables. First, regarding stock prices (SP), the average company stock price reached 3400,833 with significant variations, indicated by a standard deviation of 2907,556. A high standard deviation value shows how far the data is spread from the average value. The stock price distribution tends to be skewed to the right, reflected in the positive skewness value of 0.672888.

Second, for the Current Ratio (CR), the average company has a relatively high level of liquidity, with an average value of 3.329071. The reasonably high standard deviation, namely 3.335369, indicates significant variation in CR between companies. The high skewness value of 1.804068 indicates a skewed distribution to the right, indicating that most companies tend to have high CR. Third, the Net Profit Margin (NPM) reflects the company's profitability, and the average NPM is 0.108995. The relatively low standard deviation, namely 0.060021, indicates consistency in company profitability. The NPM distribution tends to be skewed to the right, as indicated by the positive skewness value of 1.152211.

Table 1. Summary of Descriptive Statistics

	SP	CR	NPM	IFL	ERT
Mean	3400.833	3.329071	0.108995	0.029786	14385.59
Median	2285.000	2.302375	0.087043	0.029200	14243.00
Maximum	9905.000	14.13525	0.284210	0.059500	15663.00
Minimum	157.0000	0.608233	0.015874	0.013300	13724.00
Std. Dev.	2907.556	3.335369	0.060021	0.012820	437.0251
Skewness	0.672888	1.804068	1.152211	0.729315	1.194181

Fourth, the Inflation (IFL) variable shows an average of 0.029786, with a relatively low standard deviation, namely 0.012820. A low standard deviation indicates that inflation data tends to cluster around the average value. The Inflation Distribution has a positive skewness of 0.729315, indicating a skewed distribution tendency to the right. Fifth, the exchange rate (ERT) value averages 14385.59, with a relatively limited variation shown by a standard deviation of 437.0251. The exchange rate distribution has a positive skewness of 1.194181, indicating a distribution tendency skewed to the right. Overall, descriptive statistics provide an overview of the characteristics and distribution of the variables observed in this research, which can later be used as a basis for further analysis regarding the relationship between variables and their influence on company stock prices in the manufacturing sector.

Table 2. Best Model

Test	Model	Prob.	Resolve
Chow	Common Effect Model - Fixed Effect Model	0.0000	Fixed Effect Model
Hausmann	Random Effect Model -Fixed Effect Model	0.0146	Fixed Effect Model

The initial step in this research involves testing to determine the best model that suits the characteristics of the panel data used. In the context of panel data, choosing the most appropriate model is essential to ensure the analysis results are more accurate. Model selection is carried out through three special tests, namely the Chow test (to choose between the common effect model and the fixed effect model), the Hausman test (to choose between the fixed effect model and the random effect model), and the Lagrange multiplier test (to choose between the random effect model and common effects models).

Table 5. Fixed Effect Model Results

Variable	t-Statistic	Prob.
CR	1.453137	0.1488
NPM	10.01535	0.0000*
INL	2.532355	0.0126*
ERT	-1.447756	0.1503

*Significant at 5%

The test results shown in Table 2 conclude that the best model for this research is the fixed effect model. Analysis of these three tests confirms that the fixed effect model is more appropriate to the characteristics of the panel data faced in this research. The selection of this model is based on test results, which show the model's suitability to the patterns and variations of the data contained in this research. As a result, the fixed effects model was chosen as the basis for further analysis, providing a more solid basis for exploring and explaining the relationships between variables within the panel data framework used.

Table 3. Diagnostic test

Test	Indicator	Value	Prob.
Normality Data	Jarque-Bera	2.496533	0.2870
Heteroskedasticity	Glejser	2.762526	0.5983
Multicollinearity	VIF	< 10	

The next step in this research is to test classical assumptions, which involve data normality tests, heteroscedasticity tests, autocorrelation tests, and multicollinearity tests. The main aim of testing classical assumptions is to ensure that the model used meets the best linear, unbiased, and estimator (BLUE) criteria to consider the analysis results reliable and trustworthy.

Table 4. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	378.7231	109680.0	NA
CR	0.000333	2.146698	1.066699
NPM	1.047879	4.658122	1.084230
INL	22.12682	6.725471	1.052361
ERT	4.150290	110164.7	1.071047

Based on the results of the classical assumption test in Table 3, a normality test was carried out to evaluate whether the data used in the research followed a normal distribution. The Jarque-Bera test was used with a probability result of 0.2870. With a probability value more significant than the 0.05 significance level, the data is considered to have a normal distribution. Next, the heteroscedasticity test assesses whether the data has a uniform error diversity. The Glejser test was used, and the Chi-square probability result in $Obs \cdot R$ -square was 0.5983. Because this probability value is more significant than 0.05, it can be concluded that the regression model is homoscedastic or does not face heteroscedasticity problems.

Finally, a multicollinearity test was carried out to evaluate whether there was a linear relationship between the research variables. The Variance Inflation Factor (VIF) test was used, and the results in Table 4 show a value of less than 10 for each variable, indicating that the data for each variable does not show a significant linear relationship. With the results of testing classical assumptions that meet these criteria, it can be concluded that the regression model used in this research meets the BLUE principle and can be relied on for further analysis.

4.2 Effect of Current Ratio (CR) on Stock Prices (SP)

The Current Ratio (CR) is a commonly used measure to assess a company's liquidity, reflecting its ability to meet short-term liabilities with its short-term assets. According to the liquidity theory, companies with higher liquidity are perceived to be in a better financial position, thus potentially attracting more investor interest, which could influence stock prices. However, the relationship between liquidity and stock prices has been subject to varying results in empirical studies.

In this research, the partial hypothesis test (t-test) results on the Current Ratio (CR) variable show a t-value of 1.453137 and a significance level of 0.1488. Since this significance level is more significant than 0.05, hypothesis 1 must be rejected, indicating that liquidity (CR) does not significantly influence stock prices. These findings imply that no strong relationship exists between liquidity, as measured by the CR, and stock prices in the selected manufacturing companies.

This result can be understood by considering the limitations of the Current Ratio in predicting stock prices. The CR focuses solely on short-term assets and liabilities without accounting for profitability, long-term growth potential, or market conditions, which are crucial factors that investors consider when evaluating stock prices. Additionally, a high CR may only sometimes be favorable; it indicates an inefficient use of resources if a company holds excessive current assets rather than investing in growth opportunities.

Several previous studies align with these findings. For instance, Widianoro & Khoiriawati (2023) reported that the impact of liquidity on stock prices was minimal and

negative, suggesting that a high liquidity ratio does not necessarily lead to increased stock prices. Similarly, Pratiwi (2020) found no significant influence of the Current Ratio on stock prices, reinforcing the notion that liquidity, as measured by CR, may not be a decisive factor for investors. These studies suggest that investors prioritize other financial metrics, such as profitability and growth potential, over liquidity when making stock investment decisions.

However, it is essential to acknowledge that some studies contradict this finding. For instance, research by Santoso & Junaeni (2022) the better the value of the company, the more interested investors will be to invest their shares to the company. The purpose of this study is to elaborate and analyze the effect of probability, leverage, firm size, liquidity and firm growth on firm value. The main goal of the company is to maximize the value of the company, so the welfare of the shareholders will also increase. In this study, the authors use price book value (PBV) found that liquidity positively influences stock prices, arguing that companies with high liquidity instill greater investor confidence. This discrepancy highlights the mixed evidence regarding the relationship between liquidity and stock prices, emphasizing the need for further research considering different sectors and market conditions.

4.3 The Effect of Net Profit Margin (NPM) on Stock Prices (SP)

The Net Profit Margin (NPM) is a critical financial metric that measures a company's profitability by evaluating how much net income is generated as a percentage of revenue. According to profitability theory, companies that demonstrate higher profitability tend to attract more investor interest because they are seen as more financially stable and capable of generating future earnings. The NPM is particularly relevant in assessing a company's efficiency in managing its operations and can thus significantly impact stock prices.

In this research, the hypothesis test conducted on the NPM variable resulted in a t-value of 10.01535, with a significance level of 0.0000. This value is well below the conventional threshold of 0.05, indicating that the results are statistically significant. Therefore, profitability, as measured by NPM, has a positive and significant effect on stock prices, allowing hypothesis 2 to be accepted. This indicates a strong and positive correlation between a company's profitability and its stock prices, where an increase in profitability is associated with a rise in stock prices.

The findings of this study are consistent with profitability theory, which suggests that companies with higher profit margins are perceived as better investments because they are likely to generate higher returns for investors. A company's strong NPM signals efficient management and operational success, boosting investor confidence. As a result, investors are more likely to purchase shares, driving up the company's stock prices. This relationship between profitability and stock prices is central to investment decision-making.

Several previous studies support these findings. For instance, Widiatoro & Khoiriawati (2023) and Hutami (2012) concluded that profitability significantly influences stock prices, suggesting that companies with solid NPM tend to experience higher stock prices. Similarly, Moi et al. (2023) highlighted the positive relationship between profitability and stock prices, reinforcing that companies with a higher NPM offer more significant potential for stock price growth.

However, it is essential to note that some research presents different perspectives. Studies such as Muliadi et al. (2016) found that NPM had a negative and insignificant effect on stock prices in specific sectors, such as manufacturing companies on the Indonesian Stock Exchange. These contrasting results highlight that the relationship between profitability and stock prices may vary across industries and market conditions, emphasizing the importance of considering sector-specific factors when evaluating profitability's effect on stock prices.

4.4 The Effect of Inflation (INL) on Stock Prices (SP)

The latest research findings indicate a strong and positive correlation between the inflation rate and stock prices, revealing that stock prices increase alongside rising inflation rates. This unidirectional correlation suggests that investors should regard the inflation rate as a significant factor in their investment strategies. According to economic theory, inflation is often seen as a reflection of the overall economic environment, and its effects can influence various aspects of financial markets, including stock prices.

When inflation rises, it generally increases living costs and higher consumer expenses. Mokhova & Zinecker (2014) explain that such changes can significantly impact investment returns and credit risk. Rising inflation often results in higher interest rates, elevating companies' equity costs. Consequently, some investment projects may become less attractive or profitable, leading investors to reconsider their investment choices. This emphasizes the importance of understanding the relationship between inflation and stock prices, as fluctuations in inflation can have broader implications for economic growth and corporate profitability.

The findings of this research align with previous studies, such as those conducted by Jalil et al. (2023), which also demonstrated that inflation and stock prices tend to move in tandem. This relationship is vital for investors, underscoring the necessity of incorporating inflation forecasts into their investment decisions. Cipta & Laily (2019) and Naifar (2016) further support this view by highlighting inflation's critical role in shaping market dynamics and investment strategies. Their studies suggest that fluctuations in inflation rates can have significant implications for stock values, making it essential for investors to monitor inflation closely when formulating their investment plans.

However, it is also essential to consider research that presents alternative perspectives on the inflation-stock price relationship. Some studies indicate that the effects of inflation on stock prices may not be uniform across different sectors or economic conditions. For example, while specific sectors may benefit from rising inflation due to increased pricing power, others may suffer from reduced consumer purchasing power, leading to decreased sales and profitability. This complexity suggests that while there is a notable correlation, the relationship may vary depending on the broader economic context and sector-specific factors.

4.5 The Effect of Exchange Rates (ERT) on Stock Prices (SP)

The hypothesis test on the exchange rate variable yielded significant insights into the relationship between exchange rates and stock prices. The analysis revealed a t-value of 1.447756 with a significance level of 0.1503, indicating that the exchange rate does not significantly affect stock prices. Consequently, hypothesis 4 has been rejected, suggesting that the relationship between exchange rates and stock prices is not statistically significant. This finding implies that the movement of exchange rates and stock prices is mainly unpredictable and not correlated. Therefore, fluctuations in the exchange rate can lead to varying outcomes for stock prices, which may rise, fall, or remain unchanged, complicating investors' efforts to forecast stock price movements based on exchange rate changes.

These findings carry important implications for investors, highlighting the necessity of careful consideration when making investment decisions. Since the exchange rate does not significantly influence stock prices, investors should not rely on exchange rate movements as indicators for predicting stock price fluctuations. This conclusion aligns with previous research conducted by Jalil et al. (2023), who similarly found that the exchange rate had a negative and insignificant impact on stock prices. Supporting studies, including those by Caporale & Zekokh (2019), Lagat & Nyandema (2016), and Sonaglio et al. (2016), further reinforce this

perspective by demonstrating the lack of a reliable correlation between exchange rates and stock prices.

Relevant theoretical frameworks must be incorporated to deepen the understanding of this relationship. The Efficient Market Hypothesis (EMH) posits that financial markets reflect all available information, suggesting that stock prices are driven by many factors beyond exchange rates, including company fundamentals, market sentiment, and macroeconomic indicators. As a result, while exchange rates may influence specific sectors of the economy, their impact on stock prices may be overshadowed by these other factors.

Conclusion

The main objective of the research study was to conduct an in-depth analysis of the impact of various factors on the stock prices of manufacturing firms listed on the Indonesia Stock Exchange from 2018 to 2023. The study evaluated the influence of liquidity, profitability, inflation, and external factors like exchange rates on these companies' stock prices.

After analyzing the research data, it was found that liquidity and exchange rates did not significantly impact the stock prices of manufacturing firms. However, the study revealed that profitability and inflation significantly affected these companies' stock prices. This implies that profitability and inflation are the key determinants that drive the stock price movements of manufacturing firms in the Indonesian consumption sector.

Therefore, stakeholders should focus on devising effective strategies to increase these companies' profitability and closely monitor inflation trends as they play a crucial role in making investment decisions in this sector. It is important to note that the profitability of manufacturing firms in the Indonesian consumption sector is directly proportional to their stock prices. Thus, to maximize returns, investors must prioritize investing in companies with a strong record of profitability and keep a close eye on inflation trends to make informed investment decisions.

Despite the insightful findings, this research study has certain limitations that warrant consideration. Firstly, the study is confined to manufacturing firms listed on the Indonesia Stock Exchange, which may limit the generalizability of the results to other sectors or markets. Future research could expand the scope by including firms from different sectors or examining a broader range of financial instruments to provide a more comprehensive analysis of the determinants of stock prices.

Secondly, the study utilized a quantitative approach based on secondary data, which may not capture qualitative factors influencing stock prices, such as management decisions, market sentiment, or geopolitical events. Future studies could incorporate qualitative methodologies, such as interviews or surveys, to gain deeper insights into how these non-quantifiable factors affect stock prices.

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