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An Analysis the effect of Inflation, Unemployment and Economic Growth towards StockMarket in Malaysia

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Abstract- This study aims to investigate the significant effect between inflation, unemployment and economic growth towards stock market in Malaysia. secondary data used for such inflation, unemployment. economic growth and stock market cover the period of 2004-2018 using multiple regression analysis. The results are a statistically significant that inflation and economic growth have a positive significant impact towards stock market while unemployment has no significant impact towards stock market.

Keywords: Inflation, Unemployment. Economic Growth. stock market, Malaysia

I. INTRODUCTION

Stock market is where the buy or sell for the stock of company takes place. According to Zhang et al (2017), the existence of information makes it easier to predict stock price of stock market which is also known as Efficient Market Hypothesis (EMH). The price for stocks fluctuates according to the demand and supply from buyer and seller. Also, investors tend to choose a stock that can give a high return for the investors itself. There are few factors that causing the stock market to fluctuate such as inflation, unemployment and economic growth. Firstly, inflation can have an influence towards stock market. According to Farooq (2017), inflation does have an impact towards the stock market. The existence of inflation makes it hard for the investors to gain information about the movements of market. They also stated that inflation makes it hard for an institution to predict the future valuation of stock market. Through inflation, the price of stock will decline as the standard of living decrease.

In addition, unemployment also can put a pressure to stock market. Stock market reacts positively to the announcement of unemployment as when unemployment increases the stock market also increase (Boyd et al, 2017). When unemployment happens, the interest rate seems to drop thus the stock market movement will rise. Last but not least, the growth of economy for a country can have an impact to the stock market. Economic growth can lead to the growth of financial market (Pan &Vinod, 2017). A stable economic condition will attract investors to come and invest in a country as they are assured that it will give a reasonable return to the investors itself. As a country experiencing an economic growth, the movement of stock market increase as financial intermediation also increases.

Firstly, the problem statement for this study is the inflation and stock return of stock market do not give impact to each other (Yuhn, 2018) Also, the numbers of investment in the stock market will experience uncertainty as the event of inflation occurs in a country. Other than that, according to Sibande et al (2019), it stated that a previous study shows that the relationship between unemployment and stock market is negative and indirect with each other. Last but not least, based on study by Nyasha&Odhiambo (2017), previous study stated that economic growth gives either negative or no relation towards stock market. Various studies have focused on whether economic growth has a relationship with stock market or not.Basically, the objective of this research is to determine the characteristic affecting stock market in Malaysia

1) To estimate the impact of inflation towards stock market in Malaysia.
2) To estimate the impact of unemployment towards stock market in Malaysia.
3) To estimate the impact of economic growth towards stock market in Malaysia.

II. LITERATURE REVIEW

Inflation can put pressure on stock market. As the movement of stock market is unpredictable it may be affected by factors like inflation. First and foremost, according to Abu Bakar Akbar (2019), the study investigates whether inflation can have an impact towards stock return of the stock market in manufacturing companies. The result of the finding shows that there are positive relationships between the variables at desired significant level. Other than that, based on Lee (2016), the study was conducted to find if the inflation and stock market have a relationship with each other using a VAR approach. The study finds that there is positive relationship between inflation and stock market. Furthermore, a study by Ray (2012) shows that inflation and stock prices have a significant to each other in all the countries related to the study except for Korea.

Last but not least, based on MochammadFahlevi (2019), the study was conducted to find if inflation gives effect to stock price of stock market in Indonesia. The study concluded that inflation and stock price of stock market have a positive relationship with each other. According to Grag and Kalra (2018), the study investigates whether macroeconomic variables such as unemployment has an effect towards the stock price of stock market. The result shows that there is negative significant relationship between unemployment rate and stock market. Other than that, based on study by Phiri (2017), the study was conducted to find the relationship between unemployment and stock market. It has found that unemployment and stock market are not significant with each other. According to Indangasi (2017), the study is conducted to search if there is any relationship between economic growth and the performance of stock market. The finding shows that the relationships between those two variables are at significant level.

Next, according to Sattar, Ali, Rehman, and Naeem (2018), the study investigates whether economic growth and stock market have a relationship towards each other. The result of the finding shows that a significant positive relationship between economic growth and stock market. Lastly, based on study by Khan et al (2017) have conducted a study to find if one of the economic factors including gross domestic product can give impact towards stock market. The result of the finding demonstrates that the variables give a positive significant result to stock market.

III. DATA AND METHODOLOGY

Secondary data used for such inflation, unemployment. economic growth and stock market cover the period of 2004-2018 from The World Bank and Thomson Reuters. Based on this study, the research framework is where the independent variables are stock price and stock return of stock market in Malaysia on January effect which is the dependent variable for this study.

A hypothesis build in this chapter is based on research objectives. The hypothesis of the study is explained below:

H1: There is a significant impact between inflation and stock market in Malaysia
H2: There is a significant impact between unemployment and stock market in Malaysia
H3: There is a significant impact between economic growth and stock market in Malaysia

Linear regression line form an equation for,

$$\mathbf{SM} = \boldsymbol{\beta 0} + \boldsymbol{\beta 1}\ \mathbf{(I)} + \boldsymbol{\beta 2}\ \mathbf{(U)} + \boldsymbol{\beta 3}\ \mathbf{(EG)} + \boldsymbol{\epsilon}$$

Where:
SM = Stock Market (KLCI)
I = Inflation rate (CPI)
U = Unemployment (Unemployment rate)
EG = Economic Growth (GDP)

IV. RESULTS

Table 1 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.113	3	1.038	11.309	.0001[b]

Residual	1.009	11	1.038		
Total	4.122	14			

a. Dependent Variable: Stock Market

b. Predictors: (Constant),Inflation rate, unemployment rate and economic growth

The tables shows the F-statistic for the model of regression and its related statistical significance. The result above shows that the F-statistic is at 11.309 and the p-values is at 0.001 which is less than 0.005 which means that if p<0.005 then H0 is rejected. Therefore, the result indicates that the indicators strongly impact the stock market.

Table 2 Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-17.919	5.55		-3.228	0.008
	Inflation	0.499	0.156	0.532	3.196	0.009
	Unemployment	2.314	1.749	0.296	1.323	0.213
	Economic growth	1.829	0.424	0.905	4.313	0.001
	R	0.869				
	R- Square	0.755				

Note: a. Dependent variable: Stock market

Based on the tables, the result shows that the R square is 0.755. The result brings a meaning where the independent variables (inflation rate, unemployment rate and economic growth) explain 75.5% of the variation in dependent variables (stock market). In other words, there are a strong connection between independent variables and dependent variables. Table 3 shows the data result for coefficients. The regression model can be written as STOCK MARKET = -17.919 + 0.499 (I) + 2.314 (U) + 1.829 (EG).

The t-statistic above shows the inflation is at 3.196 where it indicates a positive relationship between the variables. It indicates that hypothesis 1 is accepted because inflation has positive significant impact to stock market and is supported by Abu Bakar Akbar (2019), Lee (2016), Ray (2012) and MochammadFahlevi (2019). Other than that, the t-statistic for unemployment is 1.323. The result indicates that unemployment has no significant impact towards stock market as the p-value is at 0.213 which is higher than 5% and is supported by Grag and Kalra (2018) and Phiri (2017). Last but not least, the t-statistic for economic growth is at 0.001. It indicates a positive significant impact towards stock market at which is supported by Indangas (2017), Sattar, Ali, Rehman, and Naeem (2018), and Khan et al (2017).

V. CONCLUSIONS

The result shows that inflation and economic growth have a positive significant impact towards stock market while unemployment has no significant impact towards stock market. Firstly, recommendation for future research is they can choose different variables to receive a clearer result. The result of different variables can produce an outcome whether it is positive or negative. Other than that, on future research, they can expand the research on other country other than Malaysia. By doing this, new information can be added for the reference of future research. Lastly, policy maker can collect data and impose a new policy that will benefit various sectors in the country. By imposing new policies, the country can control any variables that give an actual benefit for them.

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