

The impact of macroeconomic indicators on stock price: Evidence from consumer services companies listed on the Colombo Stock Exchange

M.M.G.R. Karunarithna and K.V. Aruna Shantha

*Department of Accountancy and Finance, Faculty of Management Studies,
Rajarata University of Sri Lanka, Mihintale
Corresponding author: gkarunarithna1@gmail.com*

Abstract

According to the Arbitrage Pricing Theory, expected return on an asset is dependent on macroeconomic variables such as inflation, exchange rates, production measures, and interest rates since they capture the systematic risk of the asset. During the past few years, Sri Lanka experienced significant movements of such macroeconomic variables. Hence, it is worth investigating the effects of macroeconomic factors on the stock price. Thus, this study aims to examine the impacts of inflation, interest rate, exchange rate, gross domestic product and money supply on the stock price. The study sample is 38 consumer services companies listed on the Colombo Stock Exchange for the period from the second quarter of 2014 to the first quarter of 2019. The data analysis is conducted by employing panel data analysis for the quarterly data obtained for the study sample. In the data analysis, the effect of firm-specific factors on the stock prices of the selected companies is controlled by using their earnings per share, dividend payout, and net asset per share. The results reveal that gross domestic product has a positive effect, while the interest rate and money supply have negative effects on the stock price. However, inflation and exchange rate are found to exhibit no effect on the stock price. Therefore, supporting the arbitrage pricing theory, the results imply that the investors should account for systematic risk resulting from changes in interest rate, money supply and gross domestic product when trading stocks of consumer services companies listed on the Colombo Stock Exchange.

Keywords: *Exchange rate, gross domestic product, inflation, interest rate, money supply, panel data.*