CHAPTER 1

INTRODUCTION

1.1 Background

The consumer cyclical industry includes sections of the economy sensitive to the economic cycle, leading to swings in their performance that are impacted by changes in the overall economic environment. (Angela, 2023). According to the study of Tjhin et al. (2024), the consumer cyclical industry encompasses sectors such as:

1. Retail: Businesses that provide goods and services to people extremely sensitive to economic conditions. These include items such as clothing, technology, home furnishings, autos, luxury items, and entertainment-related items. Because customer behavior varies with the economy, retailers in this sector are especially subject to economic cycles.

2.Automobile: The demand for automobiles frequently rises during prosperous economic periods and falls during slowdown economic periods.

3.Media and Entertainment: The demand for media and entertainment rises and falls depending on economic conditions. During a prosperous economy, consumers have more disposable income to spend on media and entertainment, and during a downturn in the economy, consumers tend to cut back on discretionary spending.

The consumer cyclical industry in Indonesia has several key characteristics (Alfi and Suwaidi, 2023):

1.Sensitivity to economic fluctuations: These industries prosper during periods of economic boom and suffer during recessions, with sales closely related to consumer confidence and spending power.

2.Seasonal Demand Patterns: Certain industries, such as retail and travel, may have seasonal peaks, especially during holidays or festive seasons, when consumer spending normally rises.

3.Consumer Behavior Impact: Consumer tastes and trends can considerably impact demand, making adaptation and innovation critical to success.

4.Dependence on Disposable Income: Higher disposable income levels often lead to higher spending in cyclical industries, making them susceptible to changes in employment rates and economic conditions.

5.Marketing Investment: During economic downturns, firms in these areas usually invest heavily in marketing and promotions to attract customer interest and boost sales.

6.Inventory Management Challenges: Fluctuating demand can lead to inventory management challenges, necessitating supply chain flexibility.

7.Regulatory Environment: Government regulations, including taxation and import tariffs, can impact pricing and profitability in consumer cyclical industries.

However, this industry is crucial to assisting the country's economic development and offering job possibilities, allowing the country to escape the middle-income trap. The middle-income trap refers to a situation in which A country rapidly expands to the middle-income level before stagnating and failing to reach the high-income position. Lack of innovation, insufficient educational institutions, and reliance on low-cost manufacturing are all factors that contribute to this trap.

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In middle-income countries, like Indonesia, consumer demand shifts from necessities to more discretionary items as income rises. If the consumer cyclical industry fails to adapt to shifting demands, it may stifle future economic growth and innovation, locking the economy in the middle class.

A robust consumer cyclical industry can spur investment in infrastructure and services. If middle-income countries do not invest in these areas, they may struggle to sustain long-term growth, resulting in stagnation.

The cyclical nature of these industries presents opportunities for significant job growth. Low-skilled and low-wage jobs may not offer sufficient upward mobility to avoid the middle-income trap.

Countries that invest in consumer-related technology and innovation are more likely to achieve high-income status. In contrast, dependence on traditional, cyclical models can inhibit progress and cause stagnation.

As global rivalry intensifies, middle-income countries must build distinct competitive advantages, like innovation and diversification. The consumer cyclical industry is important for supporting the country’s economic development and creating job opportunities, helping the country escape from the middle-income trap by attracting domestic and foreign investment considering Indonesia’s large market and growth potential.

In regards to the significance of the consumer cyclical industry in Indonesia, it is important to understand factors that affected the stock return of the consumer cyclical industry in Indonesia, such as:

1.Financial Performance

A strong company is defined by its financial performance. To decide whether a firm or sector is worth investing in, consider its prospective economic benefits and business performance. A company's financial and market performance are key markers of its success. To analyze a firm's financial performance, investors and researchers should consider its accounting profitability and market success, among other factors (Rahman, et al., 2016).

Asset Efficiency plays a significant role in determining stock return since efficient firms, indicated by high asset turnover, tend to have better stock performance. Asset turnover (total assets divided by total sales) assesses a company's ability to produce sales through efficient asset utilization. and positively affect stock return which reveals that operational efficiency is important for enhancing stock prices (Patin et al, 2020).

Liquidity is important in determining stock returns in the consumer cyclical industry. The liquidity effect on stock return is more pronounced during volatile markets and economic crises (Anderson et al, 2017).

Profitability is represented by ROE (Return on Equity) is calculated by dividing net income by shareholder’s equity. A study by Wicaksono (2024) revealed that ROE affects stock prices in the consumer cyclical sector in Indonesia. Niandari (2023) also revealed that ROE affects stock return positively, while ROI and Operating Profit Margin did not affect stock return.

2.Macroeconomic Factor: Macroeconomic conditions negatively impact profit performance and financial distress in Indonesian manufacturing companies, with inflation, exchange rates, and interest rates having a significant impact on both (Aisyah, et al., 2021).

3.Market Return: Market return has a significant impact on stock returns in consumer cyclical industries, which are generally complex and dynamic. Consumer cyclical industries are sensitive to economic cycles and show distinct patterns in response to market shifts. A research by Thamrin and Sembel (2020) revealed that market return, fundamental factors, and macro economy partially and simultaneously influence the stock return of consumer goods companies.

1.2 Research Problem

The Consumer cyclical Industry is one of the pillars of economic growth in Indonesia and it also has an important role in maintaining Indonesia’s social stability as it opens a lot of job opportunities, thus it is important to understand what the factors that affected its stock return, such as financial performance, macroeconomy, and market return.

1.3 Research Question

Based on the research problem and context background, this study raises several research questions as the main focus:

1.What fundamental financial factors affect the stock return of the consumer cyclical industry in Indonesia?
a.How does the effect of Asset Efficiency on the stock return of the consumer cyclical industry in Indonesia?
b.How does the effect of Liquidity on the stock return of the consumer cyclical industry in Indonesia?
c.How does the effect of Profitability on the stock return of the consumer cyclical industry in Indonesia?

2.What are the main macroeconomic variables that affect the stock return of the consumer cyclical industry in Indonesia?
a.How does the effect of the foreign exchange rate on the stock return of the consumer cyclical industry in Indonesia?
b.How does the effect of interest rate on the stock return of the consumer cyclical industry in Indonesia?

3.How does the effect of market return on the stock return of the consumer cyclical industry in Indonesia?

4. How does consumer cyclical industry stock return performance respond to economic turbulence before the pandemic compared to after the pandemic era?
a. How is the difference in consumer cyclical industry stock returns before and after the COVID-19 pandemic?
b. How is the variance of consumer cyclical industry stock return differ before and after the COVID-19 pandemic?

1.4 Research Objectives

1.To analyze and evaluate the fundamental financial factors that affect the stock return of the consumer cyclical industry in Indonesia.

a. To analyze and evaluate the effect of Asset Efficiency on the stock return of the consumer cyclical industry in Indonesia.

b. To analyze and evaluate the effect of Liquidity on the stock return of the consumer cyclical industry in Indonesia.

c. To analyze and evaluate the effect of Profitability on the stock return of the consumer cyclical industry in Indonesia.

2. To analyze and evaluate the main macroeconomic variables that affect the stock return of the consumer cyclical industry in Indonesia.

a. To analyze and evaluate the effect of the foreign exchange rate (USD) on the stock return of the consumer cyclical industry in Indonesia.

b. To analyze and evaluate the effect of interest rate on the stock return of the consumer cyclical industry in Indonesia.

3. To analyze and evaluate the effect of the market return on the stock return of the consumer cyclical industry in Indonesia.

4. To analyze and evaluate the effect of the consumer cyclical industry stock return performance response to economic turbulence before the pandemic compared to and after the pandemic era.

a. To analyze and evaluate the variance of the consumer cyclical industry stock returns before and after the COVID-19 pandemic.
b. To analyze and evaluate whether the variance of consumer cyclical industry stock return differs before and after the COVID-19 pandemic.

These are the steps to be done in financial performance analysis in this study:

1.Analyzing financial performance that affected the stock return of the consumer cyclical industry by using statistical tools:

a. Liquidity affects the stock return of the consumer cyclical
b. Asset Efficiency affects the stock return of the consumer cyclical
c. Profitability affects the stock return of the consumer cyclical

2.Analyzing macro-economic factors that affected the stock return of the consumer cyclical industry by using statistical tools:

a.Exchange rate affects the stock return of the consumer cyclical b.Interest rate affects the stock return of the consumer cyclical

c.Pandemic (COVID-19) moderates the effects of exchange rate on the stock return of the consumer cyclical

d.Pandemic (COVID-19) moderates the effects of interest rates on the stock return of the consumer cyclical

e.Pandemic (COVID-19) moderates the effects of market return on the stock return of the consumer cyclical

3.Analyzing the difference in consumer cyclical industry stock performance before and after the pandemic (COVID-19)

a. Variance of stock returns of the consumer cyclical industry before and after the pandemic (COVID-19) may differ

b. Difference of stock return of the consumer cyclical industry before and after the pandemic (COVID-19).

1.5 Research Scope

This research's main idea is to analyze the impact of financial performance, macroeconomics, and market returns on the stock return of a consumer cyclical industry in Indonesia that was listed on IDX from 2014 to 2023.

1.6 Research Gap

The last research on stock return in the consumer cyclical industry done by Wicaksono et al. (2024) revealed that Return on Equity (ROE) affects stock price in the consumer cyclical industry, while debt to equity and current ratio did not affect stock price. A study done by Mujianto et al. (2024) showed that EPS, ROE, ROA, and NPM simultaneously do not have a significant influence on financial distress in consumer cyclical deposits on the Indonesia Stock Exchange (BEI) for the 2020-2022 period. While research by Marjohan et al. (2024) found that Inventory Turnover and Current Ratio variables have no significant effect on stock prices, Debt Equity Ratio has a negative impact on stock prices, Net Profit Margin, and Price Earning Ratio (PER) has a positive impact on stock prices. Simultaneously, the effect of Inventory Turnover, Current Ratio, Debt-to-Equity Ratio, Net Profit Margin, and PER significantly impact Stock Price. Previous study not yet considered the financial fundamental, macroeconomic, and pandemic moderating impact on the consumer cyclical industry.

1.7 Significance and Novelty

This study will give added value to previous research by combining fundamental factors of financial analysis and macroeconomics factors as well as market return and also considering the moderating factor of the pandemic impact on a stock return of the consumer cyclical industry in Indonesia in which only few of previous research of consumer cyclical industry in Indonesia, thus it is expected that this study will give added value for the investor in making the decision as well as academic to gain a deeper understanding on the subjects, the academics can also investigate further evidence and the limitation set in this study.

1.8 Research Contribution

1.8.1 Theoretical Contribution

The result of this study can be a reference for research and analysis of the consumer cyclical industry stock performance, and to increase insight into the consumer cyclical industry.

1.8.2 Practical Contribution

Investors can use this study to make investment decisions related to the stock of a consumer cyclical company, and help consumer cyclical industry management define financial and execution strategies.

1.8.3 Policy Contribution

The government or regulators can use this study to define regulations and set up policies related to the consumer cyclical industry. This study provides insights for policymakers and science communicators to optimize the translation of the insight and knowledge into actionable policy decisions.

1.9 Research Structure

This study is entitled Financial Performance, Macro Economy, and Market Return: Study of Consumer Cyclical Indonesia Period 2014-2023. This study consists of five chapters:

Chapter 1 – Introduction

The first chapter explained the background of the main topic of this research, leading to the formulation of the research problems, research questions, and the research objectives this study attempts to achieve. This chapter also discussed the main benefits of the study, the scope and limitations, and organization of the thesis.

• Chapter 2 – Literature Review

The second chapter described the relevant theoretical concepts underlying the research to improve the understanding of this study. Sources of the theory include articles, journals, and textbooks. This chapter featured an overview of prior research as a reference for the investigation, as well as the formation of hypotheses, and the research framework.

• Chapter 3 – Methodology

The third chapter detailed the research design, measurement of variables, data collection, data collection procedures, data analysis techniques, hypotheses, and research process.

• Chapter 4 – Findings, Analysis, and Discussions

The fourth chapter explained the overview of companies that were included in the study. This chapter comprised the findings of the research and results from hypotheses tested. Analysis and discussion of the results were the highlights of this chapter, as to whether they were in support of the proposed hypotheses.

• Chapter 5 – Conclusions and Recommendations

The final chapter concluded the findings and analysis of the research conducted. The chapter presented the key takeaways and recommendations based on the conclusions drawn from the study that would be beneficial for investors and users of financial information in the market, as well as academics for future study.