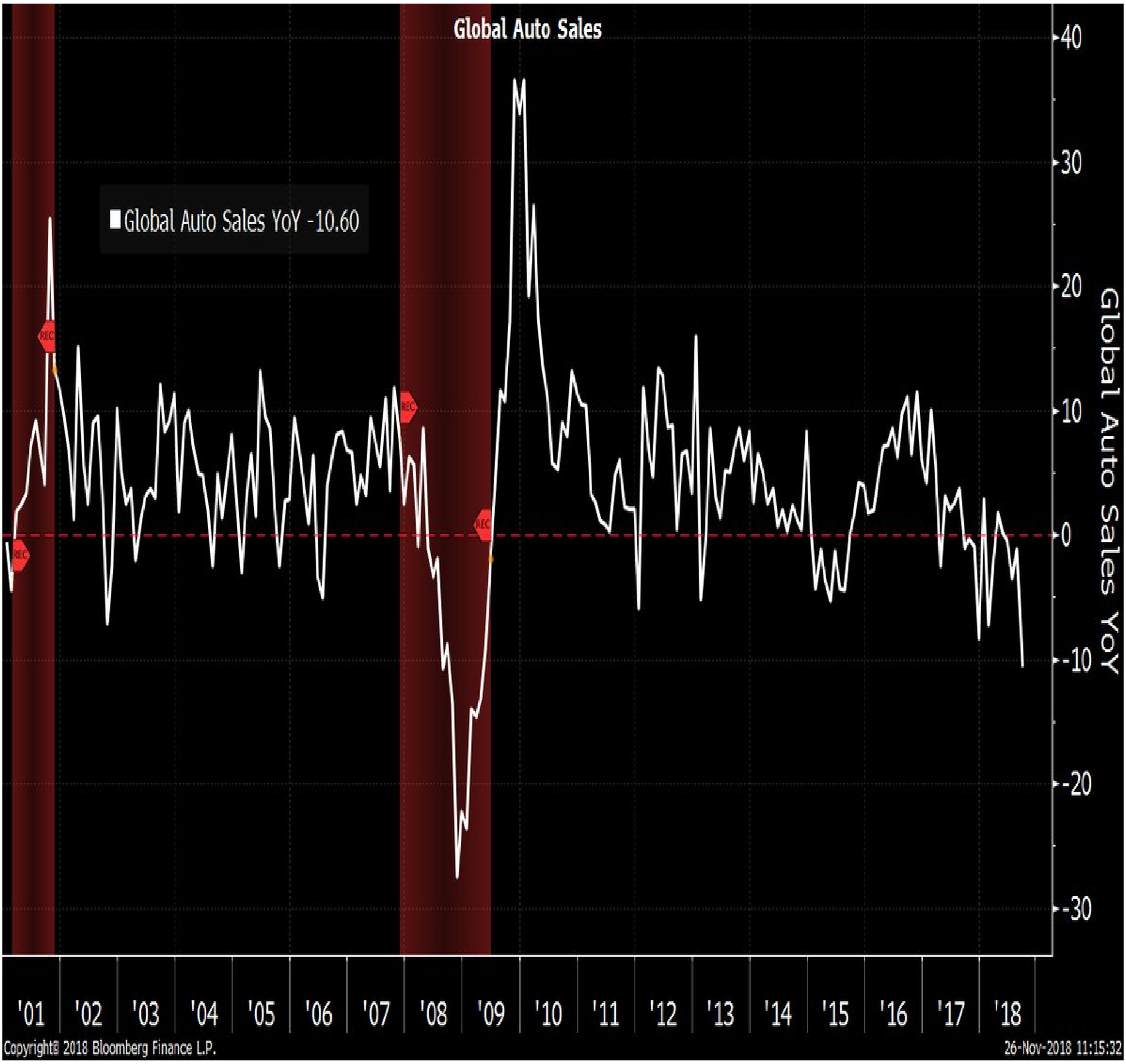
On Monday, General Motors announced that it will cut•14,700 jobs or 15% of its North American workforce in addition to closing three assembly plants and two other facilities:

> In the most far-reaching shake-up since the company emerged from bankruptcy more than eight years ago, General Motors will shutter three North American assembly plants and two other facilities, while also eliminating 15 percent of its salaried and salaried contract workforce, moves that together will cost an estimated 14,700 jobs.
>
> The cuts are part of a plan to adapt to changing market demands favoring SUVs over sedans and coupes, while also shifting focus to the electrified and self-driving vehicles GM sees as central to the industry?s future.
>
> ?We recognize the need to stay in front of changing market conditions and customer preferences to position our company for long-term success,? said GM Chairman and Chief Executive Officer Mary Barra, who outlined her new plan during a conference call Monday morning.
> About 5,600 jobs will be lost at the three assembly plants set to close by the end of 2019. That includes 1,500 at the Detroit-Hamtramck facility that currently produces the Chevrolet Volt plug-in hybrid, as well as the Chevrolet Impala, Cadillac CT6 and Buick LaCrosse sedan.

While GM's CEO•Mary Barra is spinning this move as a positive, I am highly suspicious because it is taking place at the same time that global auto sales are plunging (see chart below).•Ford also said recently that it will cut more than 20,000 jobs across the globe as part of an $11 billion restructuring.

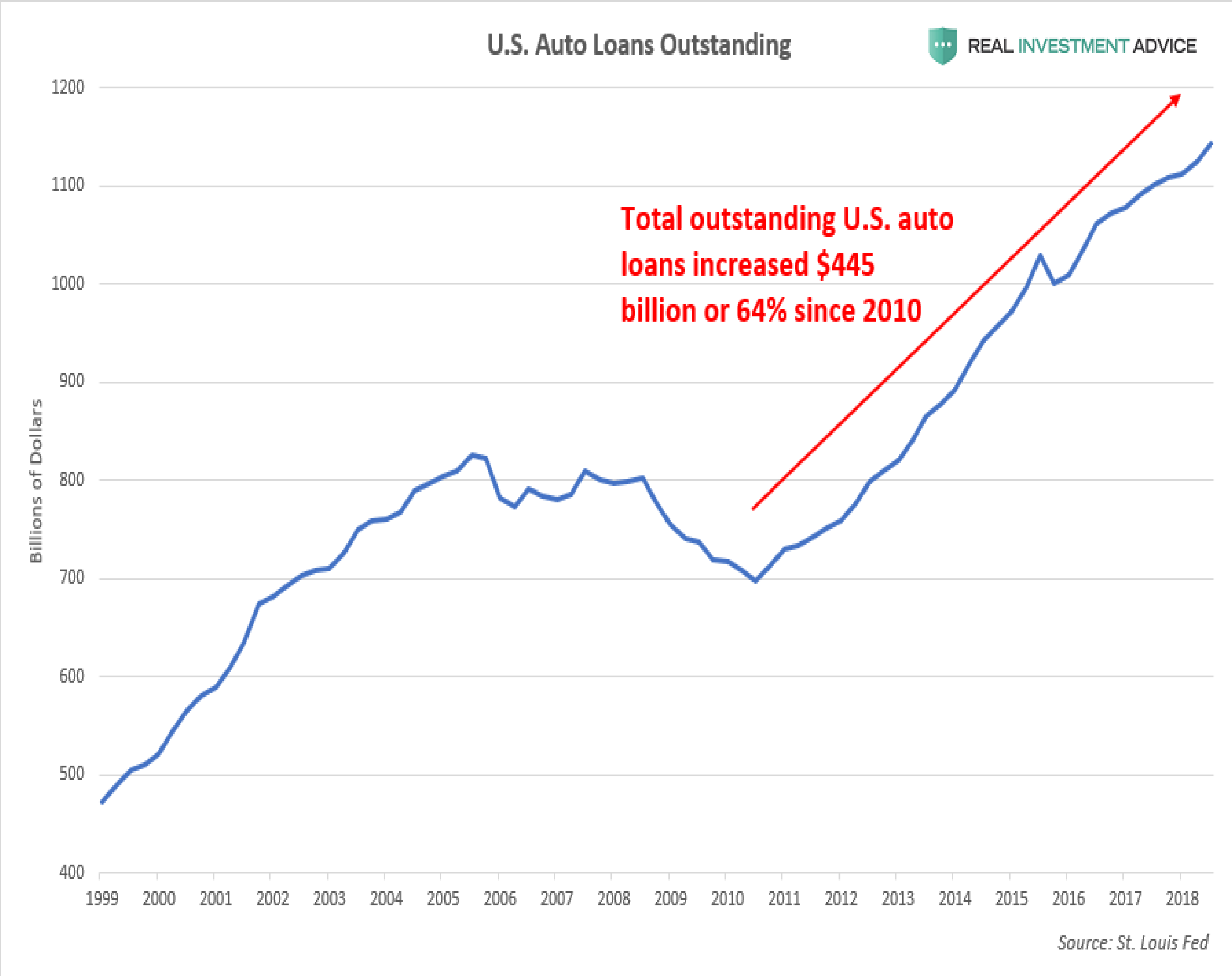



GM's layoffs and plant closures don't come as a surprise to me because I wrote a *Forbes* piece in March 2017 in which I criticized President Trump's excitement and boasts about Ford's announcement that it was going to invest in three Michigan plants, which would create jobs:

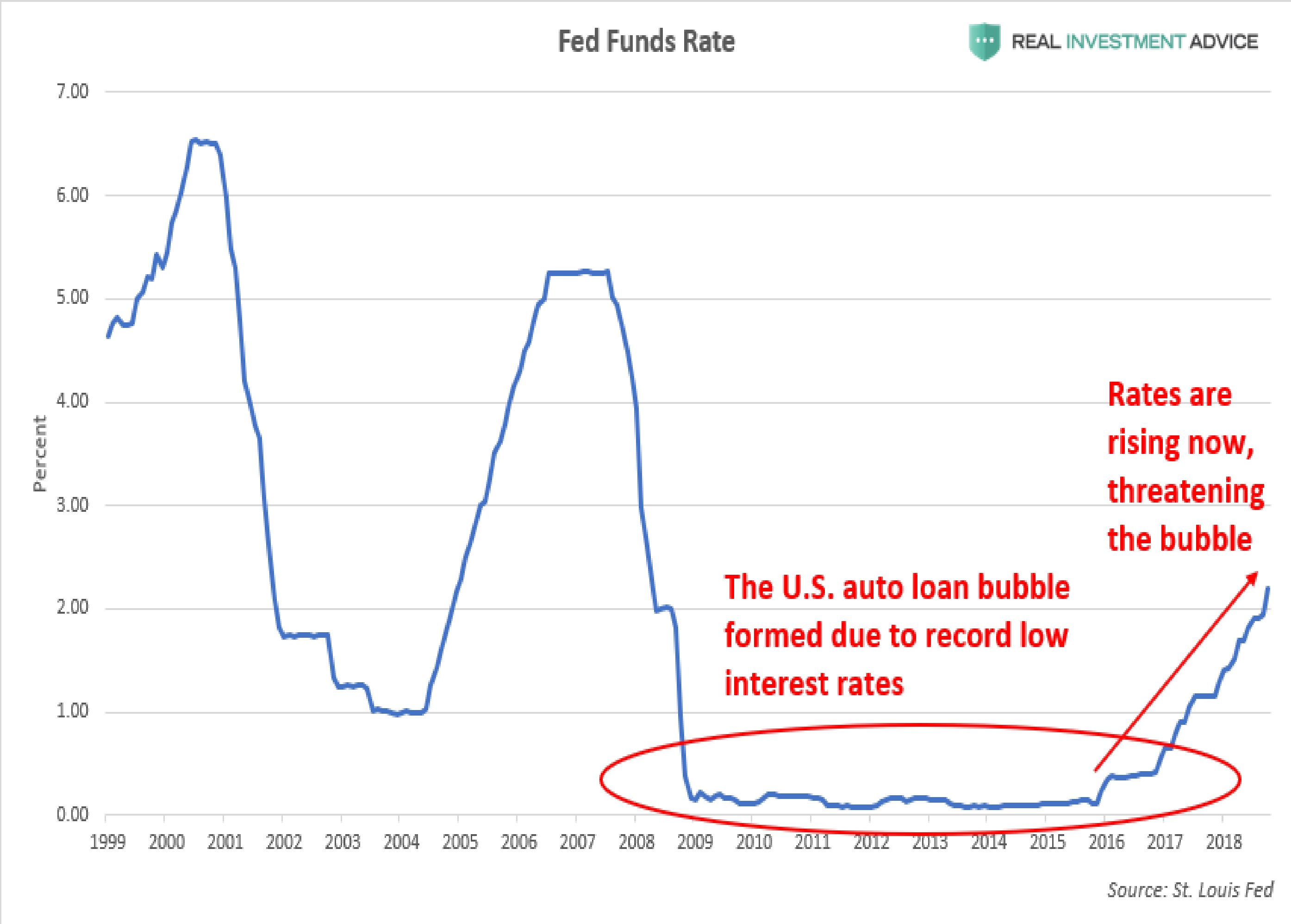

The reason why I criticized President Trump's excitement about Ford's decision was because I've been warning (then and now) that the U.S. automobile sales boom was driven by a debt bubble•that would end very badly. As I wrote in [March 2017](#):

> This credit-driven auto boom is•a major reason why you keep hearing stories about "Detroit's resurgence" and the "U.S. manufacturing comeback." Unfortunately, interest rates will rise and a bust is sure to follow. Cracks are already beginning to show•even though interest rates have barely started to rise - "seriously delinquent" auto loans have been•ticking up•in recent quarters**To my ear, when President Donald Trump praises the U.S. automobile boom, it sounds strikingly similar to economists and business leaders who were praising the economic activity and jobs created by the 2003-2007 U.S. housing bubble** - "look at all these great jobs being created! Lots of new jobs for construction workers, real estate agents, and mortgage bankers!" Unfortunately, when that debt-driven boom turned into a bust, many of those jobs were lost and the entire sector dragged the rest of the economy down with it. **I believe that the current automobile boom will follow the same path.**

Since 2010, total outstanding U.S. auto loans increased by $445 billion or 64% to over $1.1 trillion as Americans took advantage of record low interest rates to finance automobile purchases:




After the Great Recession in 2008 and 2009, the U.S. Federal Reserve cut interest rates to record low levels and held them there for a record length of time, making it much cheaper to take out loans of all kinds. Notice how the total outstanding U.S. auto loans in the chart above start to soar shortly after interest rates were cut to record lows (based on the chart below)? That is certainly no coincidence. **Low interest rates lead to borrowing booms that end when interest rates go back up, which is what has been happening over the last few years.** Rising interest rates [are threatening] the U.S. automobile sales and loan bubble and will eventually cause its popping.




It's entirely possible that GM is aware of the risk of a more serious auto sales downturn ahead as higher interest rates start to bite, which is why they decided to cut jobs and close the plants before it's too late. If that's the case, it's a smart move on CEO•Mary Barra's part.**Please follow me on• LinkedIn•and•Twitter•to keep up with my updates.Sign up for our free weekly newsletter to learn how to navigate the investment world in these risky times.**