

# U.S. labor market shows resilience in face of war

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**WASHINGTON** · The number of Americans filing claims for unemployment benefits fell last week, pointing to labor market resilience and giving the Federal Reserve room to focus on surging inflation from the war with Iran.

There are no signs yet that employers are responding to rising costs by reducing headcount. The nearly threemonth-long U.S.-Israeli conflict with Iran has disrupted shipping in the Strait of Hormuz, boosting energy prices, as well as straining global supply chains and causing shortages of a wide range of goods, including fertilizers, aluminum and consumer products.

“We still can’t rule out some spillover effects from the war and the spike in oil prices on to the labor market, which we have always expected would come with a lag,” said Matthew Martin, a senior U.S. economist at Oxford Economics. “But for now, we think the labor market is showing enough stability to allow the Fed to feel comfortable keeping policy steady.”

Initial claims for state unemployment benefits slipped 3,000 to a seasonally adjusted 209,000 for the week ended May 16, the Labor Department said on Thursday. Economists polled by Reuters had forecast 210,000 claims for the latest week. Claims have remained low despite high-profile layoffs in the technology sector, linked to the adoption of artificial intelligence.

The labor market could still soften. A survey from S&P Global on Thursday showed private sector employment dropping to a 21-month low in May, with services businesses citing “growing concerns over rising costs and deteriorating demand conditions.” Economists are anticipating that accelerating inflation will erode demand and undercut economic growth.

The survey also suggested that price pressures would continue to build. Its measure of prices paid by businesses for inputs jumped in May to the highest level since November 2022. Businesses passed on the higher costs to consumers, with S&P Global also noting “growing supply scarcities.”

Stocks on Wall Street fell as oil prices rebounded after Reuters reported that Iran’s Supreme Leader had issued a directive that the country’s near-weapons-grade uranium should not be sent abroad.

The dollar advanced versus a basket of currencies. U.S. Treasury yields were higher. The benchmark 10-year yield on Tuesday touched its highest level since January 2025.

Financial markets expect the U.S. central bank to keep its benchmark overnight interest rate in the 3.50%-3.75% range into next year. Minutes of the Fed’s April 28-29 meeting published on Wednesday showed concerns about inflation because of the conflict intensified last month, with a growing number of policymakers saying the Fed should lay the groundwork for a possible rate hike.

Policymakers “generally expected labor market conditions to remain stable in the near term,” the minutes showed, though most judged “that risks to the employment side” of the Fed’s “dual mandate were tilted to the downside.”

Last week's claims data covered the period during which the government surveyed businesses for the nonfarm payrolls component of May's employment report. Claims decreased between the April and May survey weeks. Payrolls increased by 115,000 jobs in April after rising 185,000 in March.

The number of people receiving unemployment benefits after an initial week of aid, a proxy for hiring, increased 6,000 to a seasonally adjusted 1.782 million during the week ended May 9, the claims report showed.

Although the labor market is holding up, the war is inflicting more pain on an already fragile housing market. A report from the Commerce Department's Census Bureau showed single-family housing starts, which account for the bulk of homebuilding, tumbled 9.0% to a seasonally adjusted annual rate of 930,000 units in April. Single-family homebuilding fell in all four regions. It declined 2.4% year-on-year in April.

Homebuilding was already under pressure from tariffs on imported goods, including lumber and vanity cabinets, as well as higher land, labor and construction costs.

Permits for future construction of single-family homes dropped 2.6% last month to a rate of 872,000 units. They decreased 5.5% year-on-year in April. An improvement is unlikely. A National Association of Home Builders survey this week showed homebuilder sentiment remaining depressed in May.

Residential investment, which includes home building, has contracted for five straight quarters. Economists at Goldman Sachs pared their second-quarter gross domestic product estimate to a 2.0% annualized rate from a 2.1% pace. The economy grew at a 2.0% rate in the first quarter.

"Americans looking to buy a new single-family home of their own will remain disappointed," said Christopher Rupkey, chief economist at FWDBONDS. "Inflation and financing is pushing building costs sharply higher and that will make new homes even more unaffordable if you could find one."