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188,000 gain in payrolls and for the unemployment rate to rise to 3.6%.

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By Augusta Saraiva, Bloomberg News (TNS).

The U.S. labor market burned red-hot in January as hiring unexpectedly surged and unemployment fell to a 53-year low, defying recession forecasts and adding pressure on the Federal Reserve to keep raising interest rates.

Nonfarm payrolls increased 517,000 last month after an upwardly revised 260,000

lower and Treasury yields surged. Swaps traders boosted where they see the peak of the Fed's hiking cycle to nearly 5% around midyear.

Hiring was broad-based across sectors, led by leisure and hospitality, professional and business services and health care. Government employment increased by the most since July, which reflected the return of University of California workers after the end of a strike.

The job market is proving resilient despite rising borrowing costs, a pullback in consumer demand, mounting layoffs and an overall uncertain economic outlook. Demand for workers continues to outpace supply, threatening to keep wage growth strong and fan inflation further.

That's been a key frustration for the Fed, outlined by Chair Jerome Powell on Wednesday after the central bank slowed its pace of rate hikes to a quarter point. Even so, Powell expressed optimism that officials can still pull off a so-called soft landing, in which they quell inflation without putting millions of people out of work.

In order to do so, the Fed has said it's key to ease wage gains. The jobs report showed average hourly earnings rose 0.3% from December and were up 4.4% from a year earlier. That's an easing from the prior month, which was revised higher. At the same time, the average workweek increased to 34.7 hours, the highest since March.

Other measures have shown wage growth moderating, like the employment cost index and unit labor costs out earlier this week.

"A stunningly strong jobs report raises serious doubts about the economy slipping into recession and the Fed ending its tightening cycle this spring," Sal Guatieri, senior economist at BMO Capital Markets, said in a note.

The surprising strength of the jobs report was reflected in a 1.5% increase in a gauge

Friday's report included an annual update to the population controls used in the household survey data, which means the participation and unemployment figures aren't directly comparable to the previous month.

The labor force participation rate — the share of the population that is working or looking for work — climbed to 62.4%, and the rate for workers ages 25-54 also increased. Removing the effects of those adjustments, the Labor Department said the overall participation rate was unchanged.

The report also contained an yearly update to the establishment survey that produces the payrolls figures. Job growth was revised higher for the final six months of 2022.

While some economists say the strong data may have been distorted by the seasonal factors, Omair Sharif of Inflation Insights LLC said the payrolls figures looked like "a pretty clean read."

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(With assistance from Chris Middleton, Reade Pickert and Liz Capo McCormick.)

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