Law Firm Financial Index

Q4 2024 Executive Report | Issued 2.10.2025

Firm performance cools as firms cruise to incredible finish

Law firms saw their performance slow down slightly towards the end of 2024, allowing for a solid finish but highlighting greater challenges ahead in 2025. The Law Firm Financial Index[1] (LFFI) score fell 7 points in Q4 2024 to a still-impressive score of 64.

Across the five metrics that combine into the LFFI score, four of them saw lesser performances in Q4 compared to Q3. For example, direct expenses surged in the fourth quarter as firms paid out sizeable bonuses to their associates and other staff. Overhead expenses shot up on the back of renewed investments in pretty much every category, but especially knowledge management and technology. Indeed, tech and talent appear to be the primary areas in which firms are spending larger portions of their budgets, with office and occupancy costs seeing less growth. Just as impressive is that firms have kept pace with 2023's own rapid spending despite the fact that overall inflation was cooling. In other words, firms' adjusted-for-inflation spending skyrocketed at the end of Q4 as they locked down talent and brought more technology online.

While this surge may have dented the Index's score and will likely continue to weigh on firms' pocketbooks throughout 2025, it's unlikely the partnership is too perturbed. Even after their Q4 spending spree, the average law firm saw profit growth in the double digits.

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Practice demand growth

Y/Y Change | Q4 2024 vs. Q4 2023

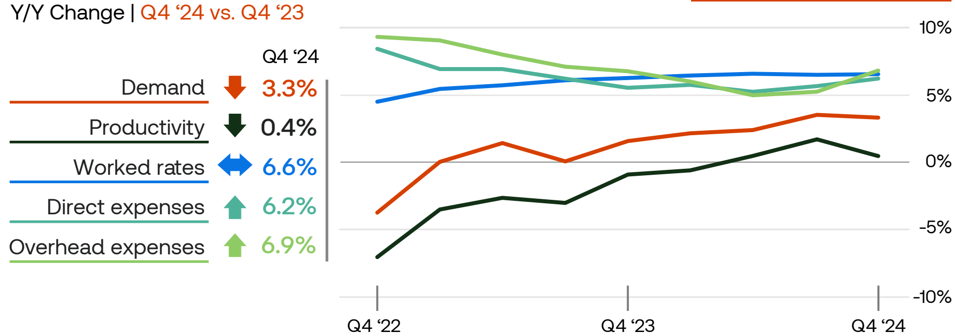
Circular band surrounding practice is equal to proportion of hours worked in 2024.

Source: Thomson Reuters 2025

LFFI key factors

LFFI SCORE: 64 ⬇ 7

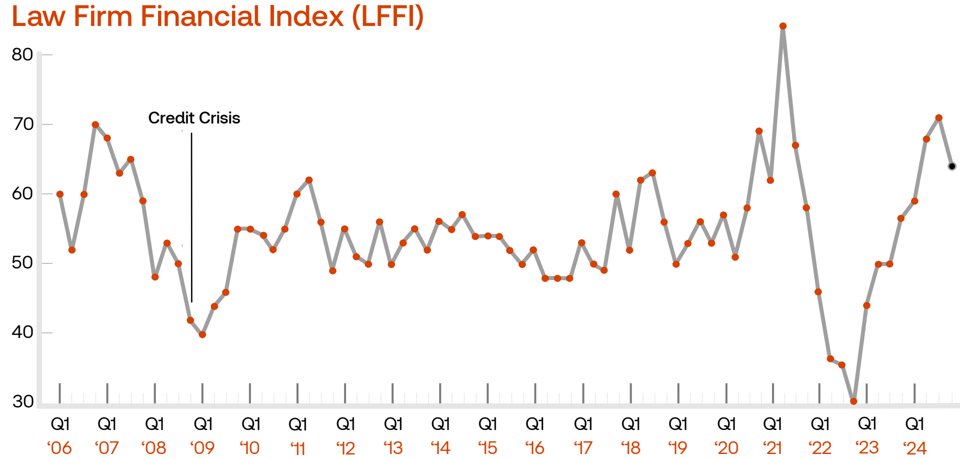
Y/Y Change | Q4 '24 vs. Q4 '23



Arrows represent direction since Q3 '24.

Source: Thomson Reuters 2025

Law Firm Financial Index (LFFI)



Source: Thomson Reuters 2025

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More concerning, however, is what has happened to demand. While only a small drop from Q3 2024's record-high performance, Q4 had notable structural advantages that puffed up the final figure. As such, demand growth is less than the headline figure suggests. Diving deeper into where this deceleration is taking place, a remarkable shift can be seen among those practice groups that are powering firm performance. Growth in counter-cyclical[2] practices slowed significantly in the fourth quarter after two years of record growth. Transactional[3] practices shifted to rapid growth in Q4 from slower growth in Q3, potentially as a result of the US presidential election.

While a *passing of the torch* between transactional and counter-cyclical work was a long-heralded development in 2024, it hasn't proven enough to maintain net demand growth. In 2025, law firms may find that the transactional boost they've been experiencing isn't enough to make up for lessening demand for counter-cyclical and other practices.

That being said, law firms are not looking at a coming crisis, in which contractions in demand wipe away the previous years' gains. According to our statistical forecasting models, demand may experience a more static environment over the first half of 2025, with an eventual uptick by the end of the year. In other words, the current level of profits that firms are achieving are far more sustainable than they were in 2021, the last time that firms fell from Index highs.

The greatest factor in determining how far firms fall, of course, will be the productivity[4] of law firms. While lawyer hiring this year was relatively relaxed, firms grew their number of full-time-equivalents (FTEs) at a slightly higher pace in the fourth quarter. With demand growth slowing and headcount growing, productivity as defined

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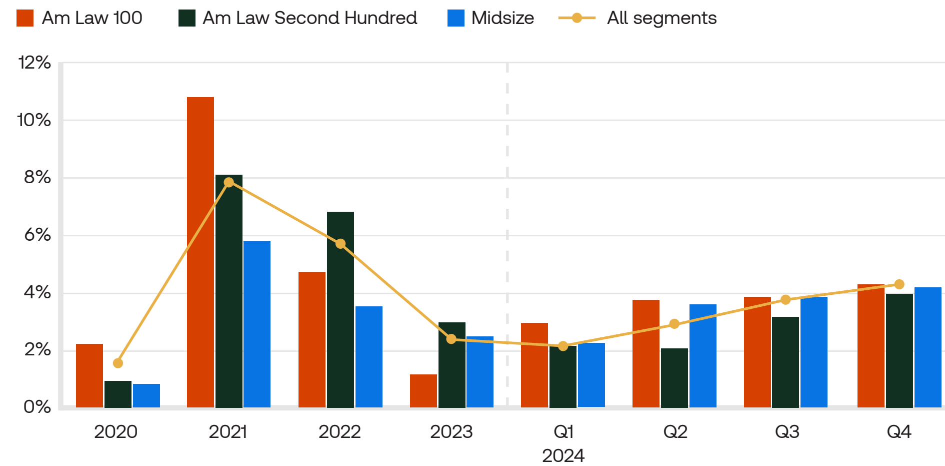
Direct expense per lawyer (FTE) growth

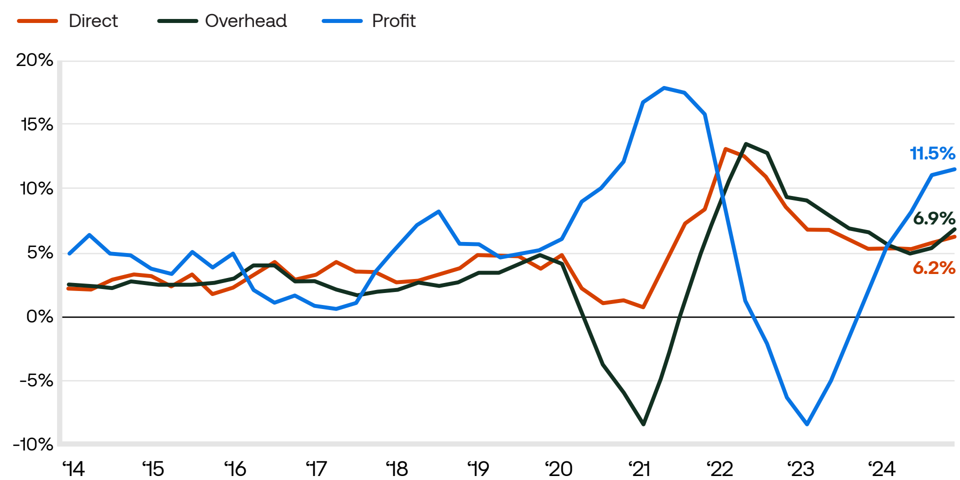
Rolling 12-month Y/Y Change | By segment



Source: Thomson Reuters 2025

Expense and profit growth

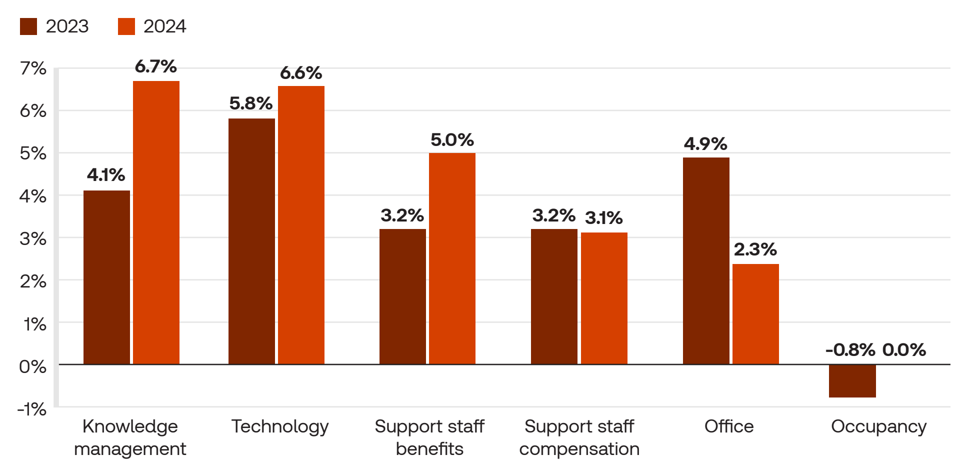
Rolling 12-month Y/Y Change | All segments



Source: Thomson Reuters 2025

Inflation adjusted growth in overhead expenses

Y/Y Change | All segments



PCE Inflation measure (as of Nov 2024) = Personal Consumption Expenditures excluding food and energy.

Source: Thomson Reuters 2025

by hours-per-lawyer was put under great strain and would have gone into contraction if not for the working day advantages in Q4. Importantly, most of the headcount growth over the past few years has been focused on the now slowing counter-cyclical practices, meaning the reactive nature of hiring may be behind the curve for where talent will most likely be needed in 2025. Transactional headcount saw the most cutting in recent years as demand there slowed; counter-cyclical lawyers may now be facing a similar situation.

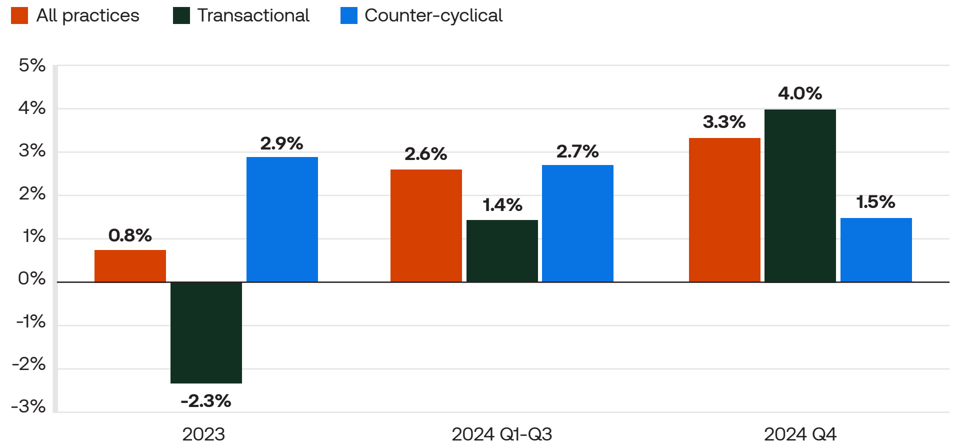
Further, with demand and productivity facing headwinds in 2025, firms are going to have to rely on rates and realization to improve their revenue-per-lawyer performance in 2025.

A combination of factors — from year-end spending sprees, slowing demand growth, and a late hiring push that pressured productivity — finally ended the LFFI's nearly two-year upwards ascent from its all-time low in Q3 2022. The good news is that there is no sign that firms are repeating history, in which all-time highs prelude a fall to all-time lows. Instead, firms are looking to return to more *normal* Index levels in 2025 as those factors which weighed on them in Q4 are set to continue into 2025.

Of course, this trajectory could be upset by any number of possibilities, from escalating trade wars to very real wars, or by disasters of both the natural and man-made variety. Yet positive opportunities still remain. Transactional demand increases could overcome the lagging performance of other practices as further legal services are required to adjust to a highly unstable world, while generative AI may finally be online enough for firms to benefit on a much wider scale. This is the state of the table as law firms are being dealt their first hands of 2025.

Shift in demand growth towards transactional practices

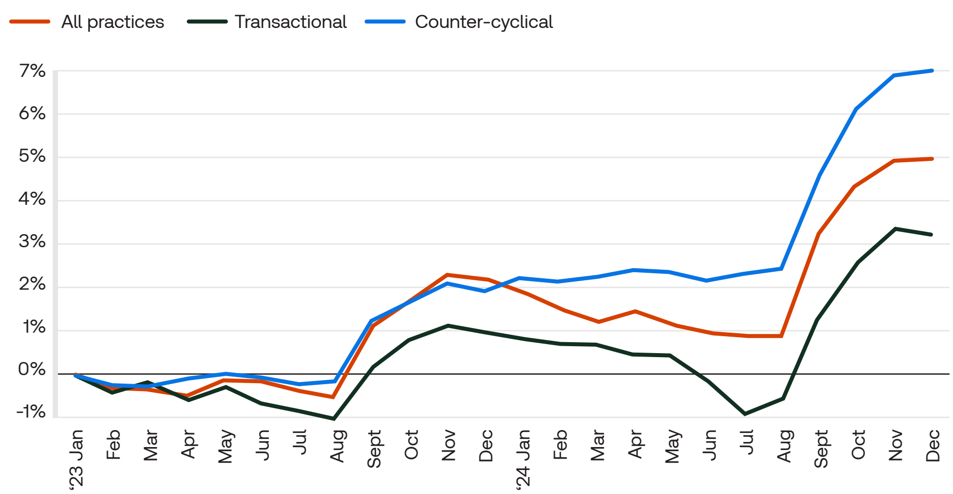
Y/Y Change | All segments



Source: Thomson Reuters 2025

Lawyer FTE growth

Percent change since January 2023 | By practice



Source: Thomson Reuters 2025

1 The LFFI is a composite score, representing the quarter-over-quarter change in drivers of law firm profitability, including rates, demand, productivity, and expenses. Positive factors driving firm profitability will produce a higher score.

2 Counter-cyclical practices are those that succeed during periods of economic hardship and struggle in periods of economic upswing, moving counter to the business cycle. This practice group includes Litigation, Bankruptcy, and Labor & Employment practices.

3 Transactional practices are those that are traditionally corporate-focused, succeeding when the economy is in an upswing but struggling during economic downturns, moving with the business cycle. This practice group includes Corporate, Real Estate, Tax, and M&A practices.

4 Measured on an hours-worked-per-lawyer basis.

*This report utilizes information from the Thomson Reuters Financial Insights competitive intelligence platform. For additional details on the data underpinning these reports, please contact Isaac Brooks at **612-270-5728**. To uncover the latest granular and tailored information on the large law firm industry, visit the customer support website or email isaac.brooks@thomsonreuters.com.*

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