Australia State of the Legal Market 2025

Strategy, speed & staying power in legal's race

Foreword

Professor Michelle Foster – Dean, Melbourne Law School

I am delighted to introduce the 2025 edition of *Australia State of the Legal Market*.

As I read this report, the theme of *adaptability* emerged clearly. The legal profession is entering a new era characterised by changing client expectations, competitive pressures on the traditional Big 8 firms from the aspiring large firms, along with the increasing presence and influence of Generative AI.

Similar to FY 2024, this report highlights the impacts of the ongoing change in the profession, with law firms showing positive key performance indicators overall; however, in comparison to FY 2024, the pace of growth had slowed. Notably, the report highlights significant demand in growth in Banking and Finance but also highlights the decline in utilisation per lawyer. This is due to a number of factors, including the impacts of GenAI, reinforcing the need for firms to continually engage and assess this technology, and underlining the importance of integrating GenAI into law school curriculum to prepare the lawyers of tomorrow.

In FY 2025, we saw an increase in demand by 3.2% for the average law firm, compared to FY 2024, with the larger firms leveraging aggressive demand growth – outperforming the Big 8 in key metrics. Yet the end of FY 2025 saw global instability such that firms worldwide, and indeed within our profession, were challenged, and shifting sands in the economy tested firms' ability to endure and adapt. This assisted the Big 8 to regain their position, and reclaim ground especially in transactional practices.

Despite these ongoing challenges, investments in marketing, technology and support staff increased, hinting at a push by firms to enhance legal expertise to increase their market share.

As we learn to embrace and understand the impact and role of GenAI in our profession, the importance of traditional methods of strategy, resilience and foresight in our fast-paced field continues to be of utmost importance. Let us welcome and embrace this new era, but work together to navigate the complex ethical and other challenges to ensure a strong and resilient legal profession.

Professor Michelle Foster
Dean, Melbourne Law School

Executive summary

In Australia's rapidly evolving law firm market, the 2024-2025 financial year[1] (FY 2025) played out like a grand prix, defined by speed, strategy, and shifting track conditions. Two distinct groups of competitors took to the circuit — the elite *Big 8* law firms, long known for their prestige and power, and the ambitious *Large*[2] law firms, whose aggressive scaling and demand-driven tactics have made them formidable challengers.

For much of the year, the Large firms led the pack. Powered by intense profit growth that managed to overcome the drag of substantial expense growth, Large firms pulled ahead with double digit profits per equity partner (PPEP) growth early in the year as the Big 8 struggled. Combined with similar outperformance in FY 2024, fully half of the top 10 firms by that total PPEP are now in the Large segment. Their strategy of scaling up and capturing market share paid off handsomely, at least while the track stayed dry.

However, as the financial year entered its final laps, the weather changed. Global instability in the final quarter of FY 2025 made the track slippery, and the Big 8 proved better equipped for the challenge. Their more aerodynamic model, built on rate strength and relatively leaner scaling, allowed them to retain traction, accelerate rate[3] growth, stabilise transactional losses, and reclaim ground in the transactional practices. While the Large firms didn't crash out, their momentum slowed and the weight of their earlier gambles began to show. The result was Big 8 firms significantly closing the PPEP growth gap with their Large counterparts in the final months of the year, growing PPEP by 3.9% compared to the 5.7% of Large firms.

FY 2025 wasn't just a race to greater heights of profitability — it was a test of endurance, adaptability, and strategy.

Adding further complication to this competitive landscape was the continued evolution of generative AI (GenAI), raising the question of whether it's a mere performance upgrade or a true turbocharger for law firm strategy. According to the Thomson Reuters Institute's *2025 Generative AI in Professional Services Report*,[4] Australian law firms are not only more optimistic about the technology than their global peers, but they're also ahead in adoption. Australian firms lead in business integration policies and training, and their tech investment is growing as fast, if not faster, than their counterparts in the United States.

Still, the race is far from over. Large firms have broken through long-standing barriers, particularly in worked rate growth, allowing them to increase the price they charge per billable hour. If they can continue to deliver more value per hour through talent, technology, and smarter billing, they may yet hold their lead. Meanwhile, the Big 8 must prove they can do more than weather storms — they must show they can win under clear skies and on fast tracks too.

FY 2025 wasn't just a race to greater heights of profitability — it was a test of endurance, adaptability, and strategy. And as the Australian legal market speeds into FY 2026, the question isn't just which firm segment is fastest, rather, it's about which model is built to last.

1 The Australian financial year runs from 1 July to 30 June, differing from the calendar year used in many other countries. It is the standard reporting period for businesses and government agencies in Australia.

2 The Large firms are those Australian law firms each composed of 50 or more lawyers that are not traditionally a part of the Big 8.

3 Rates refers to the average price per billable hour firms have negotiated with clients.

4 *2025 Generative AI in Professional Services Report*; Thomson Reuters Institute; available at www.thomsonreuters.com/en/reports/2025-generative-ai-in-professional-services-report

Methodology

Over the course of FY 2025, the financial metrics in this report were collected from Thomson Reuters Financial Insights data, which is based on the accounting systems from 23 participating law firms operating in Australia. These include some of the largest firms by the number of qualified fee-earners (QFEs) in the region and all members of the Big 8. Global metrics are based on 260-plus law firms, primarily located in the United States and the United Kingdom, which also participate in the Financial Insights program. Some numbers may have changed since the issuance of the FY 2024 report due to sample shifts, revisions, or changes in methodology.

Client insights included in the report were based on interviews with 109 Australia-based law firm clients conducted over the course of FY 2025.

Data on GenAI adoption and viewpoints comes from the *2025 Generative AI in Professional Service Report*, based on a global survey of 1,702 professionals across legal, tax, audit & accounting, corporate, and government sectors. Among them, 198 respondents were based in Australia, offering a focused view into how the region is approaching the integration of GenAI. Further datapoints are from the *Future of the Professionals 2025* survey, with 68 respondents from the Australian legal industry and 2,275 global responses.

The high-level perspective

While last year's *Australia State of the Legal Market Report* suggested the country's legal industry may be on the "brink of a new era that will redefine the industry through innovation and adaptability", a few high-level statistics from FY 2025 may help set the stage for what was one of the more fascinating financial years for the Australian legal market.

Overall, key performance indicators (KPIs) for many law firms were remarkably positive, even if the pace of growth was lower than the historically strong FY 2024. The average law firm saw demand increase by 3.6%, a similar growth rate compared to the average performance for the region and faster growth than the US legal market has achieved in any single year since the Global Financial Crisis in 2008. Rates also rose considerably, logging a fourth consecutive year of historically strong increases above 4.0%. As a result, fees worked[5] rose by 8.6% on top of the already record high results of FY 2024.

FIGURE 1:

Key performance indicators

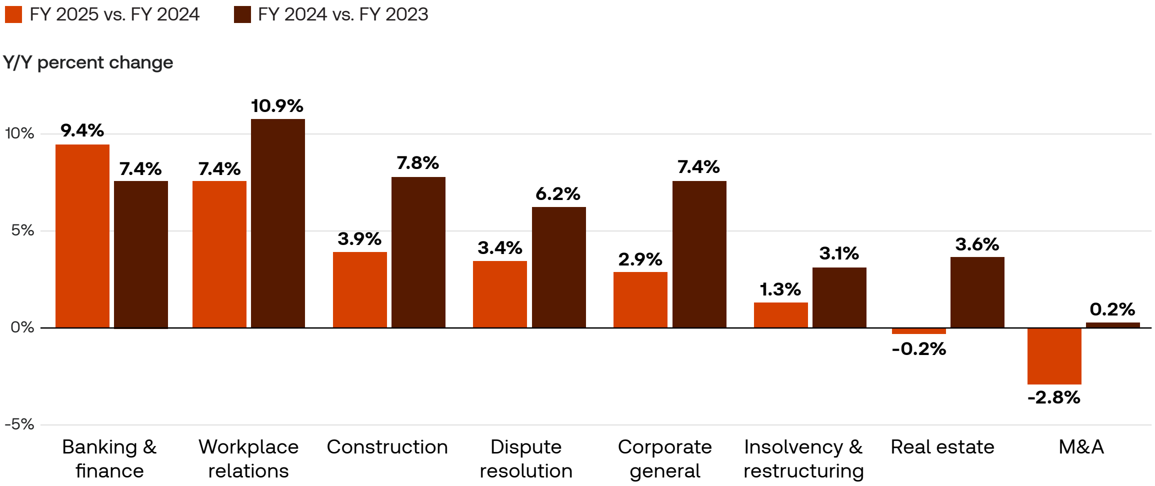
Source: Thomson Reuters 2025

Specific areas of strength were the continued strong shows in major practices, namely Banking & Finance work as well as Workplace Relations, both of which saw demand growth for the average law firm rise to nearly 9.4% and 7.4%, respectively. Other major practices performed quite well, with only Real Estate and Mergers & Acquisitions (M&A) seeing any decline in demand compared to FY 2024.

5 Fees worked is a proxy for revenue growth before contingent matters, subsidiary revenue streams, and realisation are taken into account.

FIGURE 2:

Practice demand growth



FY 2025 proportion:

Banking & finance	Workplace relations	Construction	Dispute resolution	Corporate general	Insolvency & restructuring	Real estate	M&A
9%	6%	9%	20%	13%	3%	8%	8%

All fee earners; billable time type; AU Offices.

Source: Thomson Reuters 2025

If there is a dark spot in the performance, it lies in terms of utilisation as measured by the number of hours worked per lawyer. The average law firm saw hours worked per lawyer decline by 0.7% in FY 2025 as firms' powerful demand growth was overshadowed by 4.5% average growth in headcount.

Historically, Australian firms have excelled in maintaining their hours worked per lawyer compared to other regions, but there has been some leakage in the last few years. Firms, however, have found a workaround: by raising rates as rapidly as they have, law firms have managed to increase their fees worked per lawyer by 4.1%, the third best year since at least FY 2014.

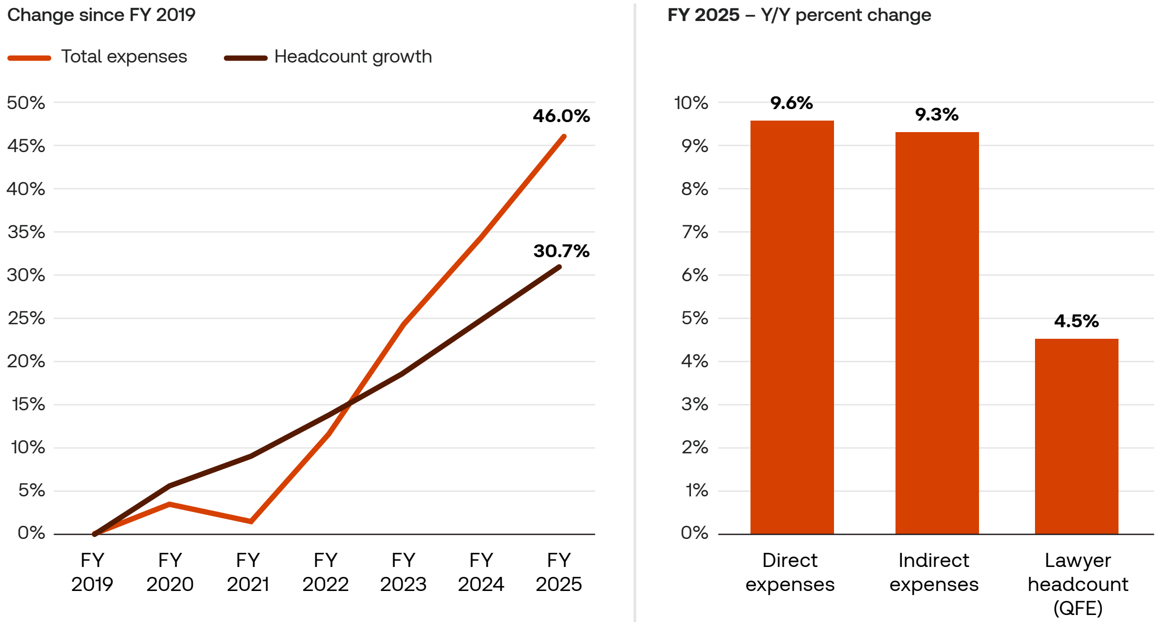
Still, this situation shows how the billable hour as a concept is increasingly under pressure, especially as GenAI undermines the value proposition of the billable hour.[6]

By raising rates as rapidly as they have, law firms have managed to increase their fees worked per lawyer by 4.1%, the third best year since at least FY 2014.

6 2025 Report on the State of the US Legal Market; Thomson Reuters Institute and Georgetown University Law Center on Ethics and the Legal Profession; available at www.thomsonreuters.com/en-us/posts/legal/state-of-the-us-legal-market-2025/

FIGURE 3:

Expense vs. QFE growth



All expenses are calculated on a rolling 12-month average.

Source: Thomson Reuters 2025

However, a very real factor may be dragging down firms: expense growth. Firms have spent the last few years undergoing an intense increase in headcount, with the average firm growing their QFEs[7] by 30.7% since before the global pandemic (FY 2019). As a result of the intense hiring, firms have seen other expenses significantly increase over the same period, far outpacing headcount growth. In FY 2025, this expansion continued unabated.

For example, in FY 2025 direct expenses[8] increased by 9.6% on average, while indirect expenses[9] rose by 9.3%, an extremely high pace of growth on top of FY 2024's similarly substantial growth.

Looking more closely at the relationship between firm headcount and expense growth, one can see that a substantial portion of the increase is due to the 4.5% average expansion in QFEs but there is still a significant increase beyond that level due to per-QFE wage inflation.

Direct expenses per lawyer increased 4.0%, a relatively tame degree of increase compared to other regions as well as Australia's own recent history of near double-digit growth in this metric. On the other hand, firms aren't necessarily pocketing those savings; instead, they're investing heavily to support their lawyers, with *indirect* spending per lawyer increasing by 4.5% in FY 2025, some of the fastest growth in a decade.

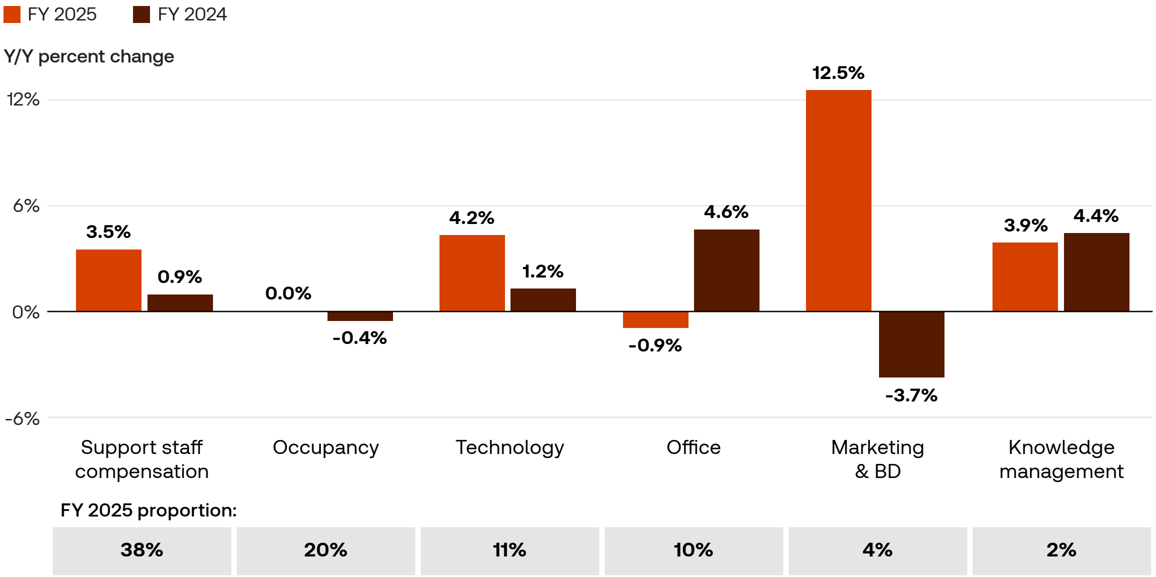
7 Firm-employed lawyer, full-time-equivalent, or qualified fee earners.

8 Direct expenses are those expenses directly related to QFE compensation and benefits.

9 Indirect expenses are those expenses not directly attributed to QFEs, such as support staff compensation, technology, rent, and office expenses.

FIGURE 4:

Indirect expense growth per QFE detail



Expense growth is on a rolling 12-month basis.

Source: Thomson Reuters 2025

Breaking down indirect spending, the focus is clearly on three particular categories. First, marketing and business development spending was the fastest growing major category, with an average increase of 12.5% on a per QFE basis. Second, to help aid their lawyers in tackling the deluge of demand, the average Australian law firm brought on more support staff, with support staff compensation spent per lawyer rising by 3.5%. And third, firms also continue to invest heavily in technology to further enhance their talent, with spending on general technology and knowledge management technology in particular growing by 4.2% and 3.9% per lawyer, respectively, or by a combined 8.6% in aggregate compared to FY 2024.

All of this, including robust demand, substantial rate increases, and the concentrated efforts to enhance talent through aggressive recruiting and technological assistance led to FY 2025 being a solid year for law firm performance. While firms did not achieve the degree of profit growth they did in the previous financial year, they still managed to build atop their previous heights with a solid year of growth. Indeed, the average Australian firm saw profits rise by 6.8% compared to FY 2024, while PPEP rose by 5.1%.

Yet as alluded to earlier, the industry's performance appears very different once we dive deeper than the topmost level. If we instead look at how the two different law firm segments performed, we'll find two distinct groups employing drastically different strategies to drastically disparate ends.

Designs on victory: The Big 8 vs. Large law firms

The Australian legal market has, like the markets of the United States, United Kingdom, Canada and others, been one historically divided between a few select firms at the top and all the others. In Australia, that upper echelon takes the form of the Big 8, a non-affiliated group of eight large law firms that have historically been some of the largest in the nation, both in terms of the number of lawyers who work for them and the greater PPEP these firms wield compared to others. These firms lead in favourability amongst Australian general counsels, with the Big 8 dominating top-of-mind considerations and are the most used for high-value legal work according to Thomson Reuters Market Insights interviews with legal buyers. On the other side of the track are the Large firms, those which are still of significant size (50 or more lawyers) but are not traditionally part of the Big 8.

Yet, to describe the Australian market as one dominated by the Big 8 firms would be a gross distortion. Indeed, the Large firms have been outpacing their Big 8 counterparts in some of the most important metrics over the last few years, growing faster in terms of demand, rates, revenue, productivity, and especially in PPEP.

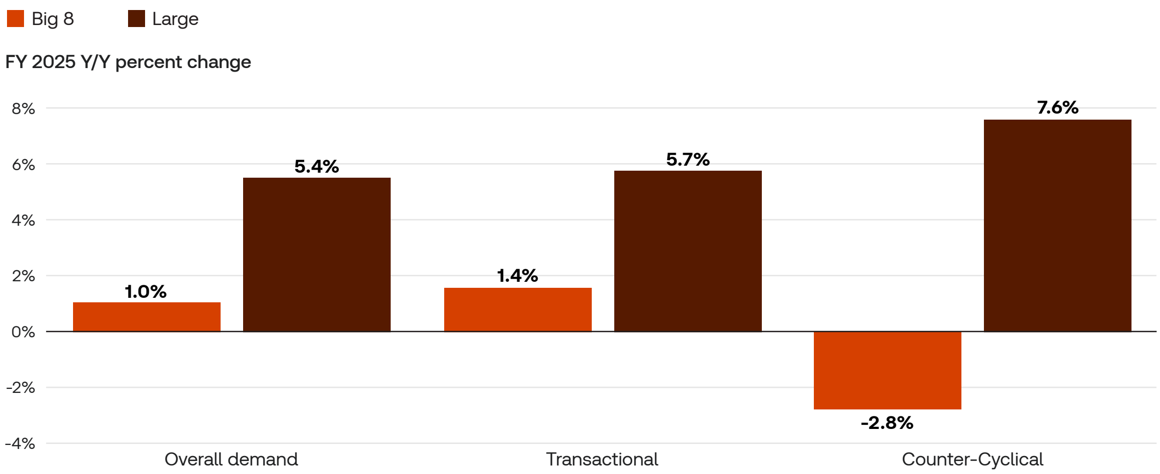
To achieve this, the Large firms have been employing a strategy focused on two key elements: aggressive demand growth and aggressive scaling. In fact, they've focused on growth in both their transactional[10] and counter-cyclical[11] practices to a much faster degree than the Big 8.

In FY 2025, this strategy continued to pay dividends to the Large segment in terms of bringing in new business. The average Large firm saw their transactional demand grow by 5.7% while their counter-cyclical practices grew by 7.6%. The level of achievement becomes clearer when put in comparison to the Big 8 firms, which saw a 1.4% growth and a 2.8% *contraction* in these same categories, respectively.

However, this decline may be more strategic, with the Big 8's headcount levels suggesting that it was due to a broad reduction in their counter-cyclical practices that preceded the decline in hours. This would make some sense, as counter-cyclical practices typically have lower rates and are more price sensitive, leading to lower profitability per lawyer.

FIGURE 5:

Macropractice breakdown — Big 8 vs. Large



Source: Thomson Reuters 2025

10 Transactional practices are those that tend to thrive during periods of economic expansion. For the purposes of this report, the transactional practice group is composed of corporate general, mergers & acquisitions (M&A), banking & finance, real estate, and tax.

11 Counter-cyclical practices are those that typically rise as other portions of the economy slow. For the purposes of this report, the counter-cyclical practice group is composed of disputes & litigation, insurance coverage, insurance defense, workplace relations, and insolvency & restructuring.

Where Big 8 firms found much greater footing was in terms of rate growth, increasing their worked rates much more aggressively than Large firms. This advantage helped boost the Big 8's fees worked growth and made up some of the distance in demand growth, while also producing less *drag* on firms' profits.

The Large firms' focus on demand growth requires them to staff up on lawyers and support staff to work the increased hours, while the Big 8 doesn't necessarily need more lawyers to increase their rates.

This is the heart of the Big 8's strategy: more power from rates and less drag from increasing headcount. And it has worked very solidly in the past, allowing the Big 8 to lean on economies of scale and rate-boosting prestige without taking on the risks that the Large firms are with a rising headcount.

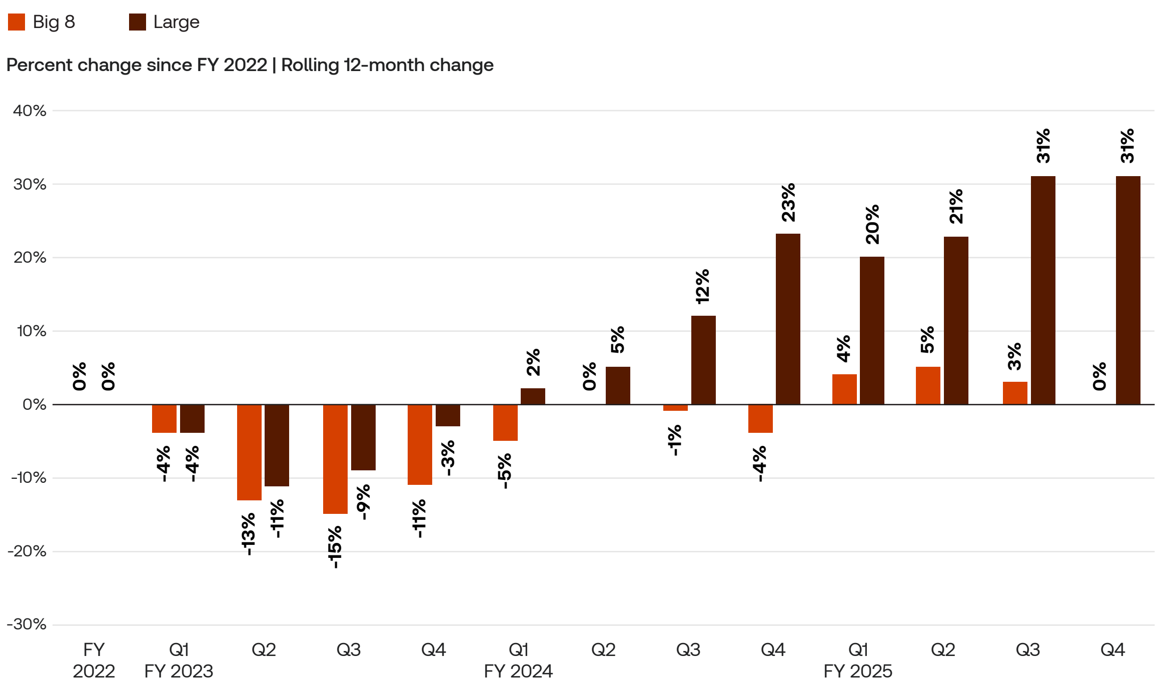
For most of FY 2025, that strategy seemed to run a bit off the track, especially in the counter-cyclical sphere. Big 8 firms found solid success in their transactional practices, growing fees worked per lawyer whereas the Large firms saw a significant contraction. However, counter-cyclical practices were a noticeable rough patch for the Big 8 firms, which saw their demand decline by 2.8% in FY 2025 while fees worked per lawyer struggled to grow at even 2.0%. Litigation & disputes, one of the largest practices, saw the greatest decline as hours dropped by over 4% compared to FY 2024.

This may be a chicken-and-egg type of scenario however, as the Big 8 firms headcount contraction in these practices predated their demand decline. However, Big 8 firms need to show that this was a decision worth making. And while there are growing signs there may have been an upside to this tradeoff, they have yet to manifest to a significant degree.

Since FY 2021, Large firms have outperformed their Big 8 counterparts in profits per equity performance consistently, having racked up 31% growth in this metric over the last three financial years. Big 8 firms, in contrast, have struggled to simply return to those FY 2021 levels, primarily as a result of significant difficulties in FY 2023 as a result of demand declines.

FIGURE 6:

Profits per equity partner by segment



Source: Thomson Reuters 2025

The end result is that the upper echelons have arguably been breached. Of the top 10 firms in Australia in terms of PPEP, half are now members of the Large segment rather than the Big 8, with Large firms fighting for spots across the spectrum. Prior to FY 2020, the top eight spots were all but indisputably the Big 8's domain. Boosted by a market with an often-insatiable appetite for legal services, Large firms have shrunk the gap significantly in terms of PEPP and at this kind of pace, are increasingly redefining the segment landscape to the point where a dichotomy of "The Big 8 vs. Everyone Else" is on the verge of irrelevance. The firms that once set the pace are increasingly seeking to keep up.

While the Big 8 may have fallen behind in their recent pace and seen their lead steadily evaporate, it would be a mistake to count them out. And, at the tail end of FY 2025, conditions indeed took a turn.

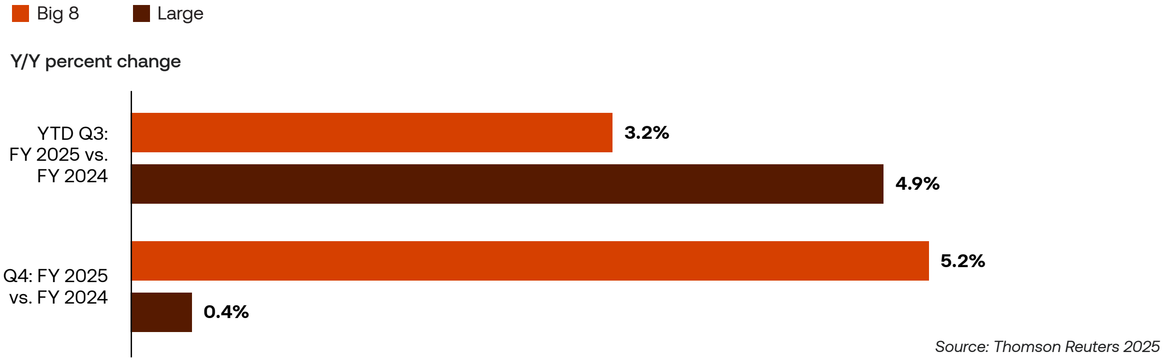
Changing conditions at the end of the financial year

Overall, FY 2025 could have been a year in which Large firm successes stretched far past those of the Big 8 and cemented their positions, but the final leg of the course was yet to be driven. As storm clouds brewed and a torrent of instability hit the global business sphere in the months of May, and June, the Big 8 showed their strategy to be far more adaptable to conditions. And Large firms increasingly felt the weight of their own gambles impinged upon their growth.

If one uses the analogy of a high-speed race to describe the Australian legal market, then the financial year's end has coincided with a fierce rainfall, soaking the track and making the competition all the more challenging. While Large firms may have held the advantage in 'dry' conditions, the new dynamic appears to be favouring the Big 8 firms to a much greater extent.

FIGURE 7:

Fees worked per lawyer



Source: Thomson Reuters 2025

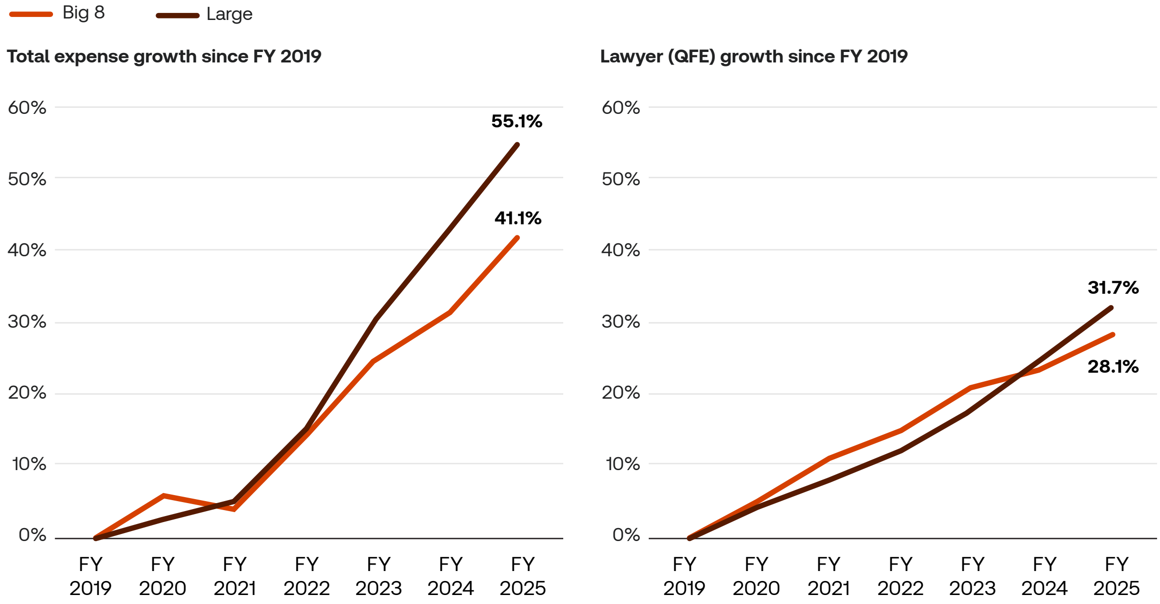
Unprecedented changes and volatility seemingly encouraging clients to seek safety in the firms already most trusted for high-value legal work. This led to accelerating rate growth as the financial year closed with the Big 8's worked rates rising by multiple percentage points in the final quarter compared to the year-to-date average at the end of Q3 FY 2025.

This late surge may reflect the advantage of experience and prestige. In contrast to the bold, high-growth tactics of the Large firms, the Big 8's steadier approach proved more resilient when conditions changed and resulted in these firms pushing a nearly 5 percentage point advantage in fees worked per lawyer in the final quarter of the financial year as Large firms struggled to hold on. The final result was that, after trailing in terms of yearly PPEP growth by double digits, Big 8 firms managed to narrow the gap considerably. Big 8 firms ended the financial year growing their PPEP by 3.9% compared to Large firms' 5.7%.

Big 8 firms significantly raised their price per hour in the final stretch, effectively doubling the already notable growth achieved by the Large segment.

FIGURE 8:

Total expense growth since FY 2019



All expenses are calculated on a rolling 12-month average.

Source: Thomson Reuters 2025

After several years of compounding gains, the slowdown in Large firms isn't itself surprising given the difficulty of achieving growth on growth. Their strategy of aggressive scaling has introduced new vulnerabilities as these firms have taken on significant cost increases. In pursuit of opportunity, Large firms expanded their lawyer headcounts by 31.7% since FY 2019 and have borne an additional expense burden as a result, with Large firms growing their expenses by 55.1% since pre-pandemic FY 2019, while Big 8 expenses increased by 41.1%.

That said, Large firms did not falter entirely, as the last few years have allowed them to overcome a key hurdle that had been holding back their performance. Large firms were plagued for the better part of eight years by an inability to increase their rates. From the period of FY 2013 to FY 2021, the average Large law firm had only increased its rates by 8.0% in total. The average American law firm, by contrast, grew its rates by more than 30%. (Although Australian firms did notch more demand growth, it was insufficient to overcome the difference.)

Now, while their rates aren't increasing as rapidly as those of their American counterparts, the period of rate stagnancy for many Australian firms appears to be over. And there's further bright news: while legal demand dipped in the fourth quarter of FY 2025, there are signs that the storm may not last very long.

Net legal spend anticipation[12] for Australian corporate clients remains high, indicating that far more Australian-based GCs expect their organisations' legal spend to grow rather than contract. Perhaps even more optimistically, the primary areas of growth are in some of the larger practices of labour & employment, regulatory, and disputes. Difficult terrain still may be ahead, especially in areas of banking & finance, M&A, and intellectual property, but ample time remains for firms to find success in FY 2026.

FIGURE 9:

Legal spend anticipation

> +20%   0% to +19%   < 0%

Net spend anticipation by country/region: Jul 24-Jun 25 (Percent of buyers increasing spend minus those decreasing spend in each work type)	Global overall	Australia	US	Mainland Europe	Japan	China	South Korea
Regulatory	+26	+33	+24	+30	+34	+5	+57
Labour & employment	+16	+20	+19	+7	+32	0	+33
Corporate	+13	+5	+16	+3	+14	+1	+24
Disputes	+10	+13	+13	+8	+26	-1	+33
Intellectual property	+6	-1	+8	-1	+21	-1	+10
Mergers & acquisitions	+5	0	+613	-3	+33	-5	+5
Banking & finance	+3	-9	+4	+1	-1	+1	+19
Insurance	+3	-1	+5	-2	+5	0	0

Number of responses: (Jul24-Jun25): Global (2550); Australia (118); US (1222); M.Europe (268); Japan (76); China (103); South Korea (21)

Source: Thomson Reuters 2025

12 Net spend anticipation (NSA) takes the percentage of respondents that anticipate *increasing* their spend and subtracts the percentage of respondents that anticipate *decreasing* their spend.

What is next for Australian firms

The outlook for the Australian legal market is starkly different based on which part of the paddock one's firm finds itself in.

The future for Large firms continues to hold promise. If they can maintain their recent momentum in rate growth while minimising demand erosion, they may yet stabilise their trajectory. The key lies in simultaneously winning more demand from clients while increasing the value in every billable hour.

Indeed, clients are far more likely to accept higher rates when they feel they're getting more in return. That means Large firms must double down on three critical fronts: attracting and retaining top-tier talent, refining their billing sophistication, and accelerating the integration of technology into their legal service delivery. Encouragingly, many firms have already begun making strides in these areas — still, the question is now whether Large firms can evolve fast enough to justify the costs of their expansion and sustain their gains in a more volatile environment.

The Big 8 firms need to prove themselves in a different way.

That means Large firms must double down on three critical fronts: attracting and retaining top-tier talent, refining their billing sophistication, and accelerating the integration of technology into their legal service delivery.

While they've demonstrated resilience in volatile conditions and shown that their prestige-driven, rate-centric model can deliver stability, the question now is whether that model can deliver more consistent growth. The final quarter of FY 2025 gave them a much-needed boost, but it also underscored how dependent their performance is on the business cycle and rate leverage. Given the recent gains made by Large firms into the upper echelons, that appears to be less a long-term strategy and more a short-term advantage.

To truly reclaim dominance, Big 8 firms will need to show that they can generate sustainable demand growth while finding new ways to compete in the transactional space in which Large firms have recently held the edge. It also means investing more deeply in innovation in their overall operations, not just in technology. The Big 8 need to simultaneously find success in maintaining rate growth, similar to Large firms. After all, while the Large firms can lean on their demand advantage, the Big 8 no longer have any such luxury. Big 8 firms need to do just as much work in that area, if not more, to convince their clients to accept ever-higher prices for legal work.

What worked in FY 2016 will not win in FY 2026.

What worked in FY 2016 will not win in FY 2026, and Big 8 firms seem fully aware of that. They're embracing new technologies and competing for top-tier talent, and most importantly, they have the resources to do it. Big 8 firms still lead in PPEP, brand recognition, and institutional client relationships. Yet, those advantages are no longer unassailable. Large firms have proved that with the right strategy, even the most entrenched hierarchies can be disrupted.

In many ways, FY 2026 may be defined by which segment of firms adapts best to the changing terrain. The Australian legal market is entering a new phase, one where agility, client value, and operational discipline will matter more than either legacy prestige or a newcomer's innate potential to disrupt.

The race has never been more competitive, and it's certainly not over.

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