Law Firm Financial Index

Q2 2025 Executive Report | Issued 8.11.2025

The eye of the hurricane

Despite a tumultuous geopolitical and economic backdrop, law firms found the second quarter of 2025 to be unnaturally calm — and unexpectedly prosperous. The Thomson Reuters Institute's Law Firm Financial Index (LFFI) rose four points to 55, as more clients turned to their outside law firms for guidance amid global instability. Whether this moment represents the start of a more stable era or merely reflects the eye of the hurricane with harsher winds to come, remains to be seen. With demand rising and firms investing aggressively in talent and technology, however, the stakes of misreading the weather have rarely been higher.

In Q2 2025, demand in the legal industry increased by an average of 1.6% for law firms. While this pace of growth is still a downshift from the pace of 2024, like Q1 2025, it's much higher than firms would have been expected to achieve on economic fundamentals alone. It was also somewhat strange just how stable it was across the months of Q2. Weekday-adjusted[1] demand clocked in at the lowest level of volatility for any quarter since 2020 and one of the most stable since the Global Financial Crisis. In other words: the quarter was unnaturally smooth; however, beneath the surface of the all-firms average, there was considerable motion, especially in practice area performance.

At the start of the year, transactional practices appeared poised for a relatively strong run, with M&A and real estate leading the charge in Q1. However, that faltered in Q2 as economic fear and instability propelled counter-cyclical[2] practices back to the forefront. Litigation took the spotlight as the fastest-growing area with 2.0% growth, while real estate

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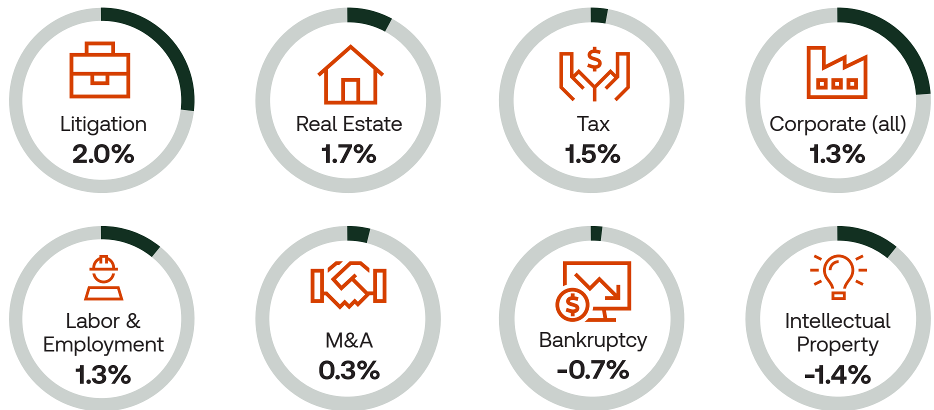
Practice demand growth

Y/Y Change | Q2 2025 vs. Q2 2024

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

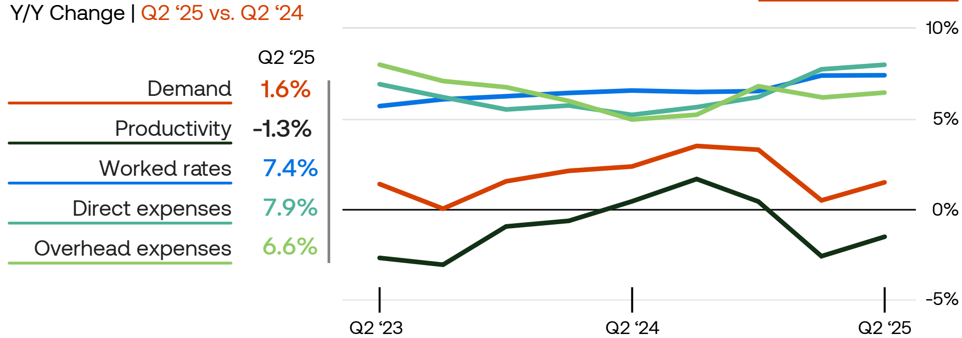


Source: Thomson Reuters 2025

LFFI key factors

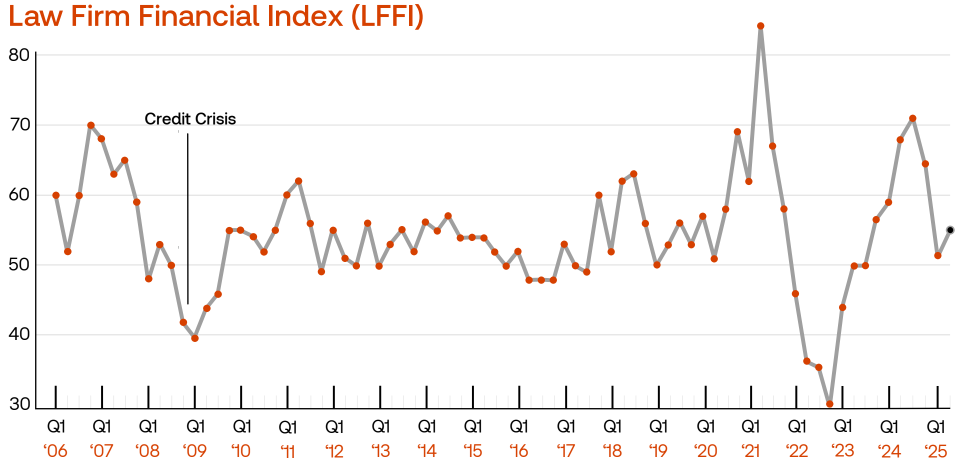
LFFI SCORE: 55

Y/Y Change | Q2 '25 vs. Q2 '24



Source: Thomson Reuters 2025

Law Firm Financial Index (LFFI)



Source: Thomson Reuters 2025

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held steady, and M&A quickly lost steam. Perhaps unsurprisingly, tax and labor & employment practices rebounded after a sluggish start to the year.

The picture becomes even more complicated when we look at each law firm segment. Am Law 100 firms saw a decline in demand growth in Q2, especially in their corporate practices. At the same time, the Am Law 1-50 firms continued to sharply limit their lawyer head-count growth. Midsize and Second Hundred firms, by contrast, greatly accelerated their demand performance across most practices. This surge in demand was enough to elevate these firms' fees worked[3] growth above that of the Am Law 100, offsetting Am Law 100 firms' advantage in worked rate growth.

Bolstered by another year of strong worked rate growth across the market, law firms are entering the second half of 2025 in a seemingly solid position. While hours worked per lawyer — a traditional measure of productivity — declined by an average of 1.3% in Q2, this was a smaller drop than in Q1 and is more than made up for by an average worked rate increase of 7.4%. Taken together, these trends mean that lawyers are generating, on average, 6.3% more in fees than at this point in 2024, which was already considered a banner year.

Under normal circumstances, it would be perfectly reasonable for firm leadership to start celebrating. In truth, however, the mood is far less optimistic. There is considerable concern that what firms are looking at right now isn't a bright horizon, but simply the eye of the storm, with darker skies yet to come. History has shown how quickly revenues can vanish; while expenses, on the other hand, tend to linger.

Part of the concern is vulnerability, because even as revenues have grown considerably, so too have expenses. Direct expenses grew by an average of 7.9% on a rolling 12-month basis in Q2, a modest increase from 7.6% in Q1. Spending on associates is slowing down but

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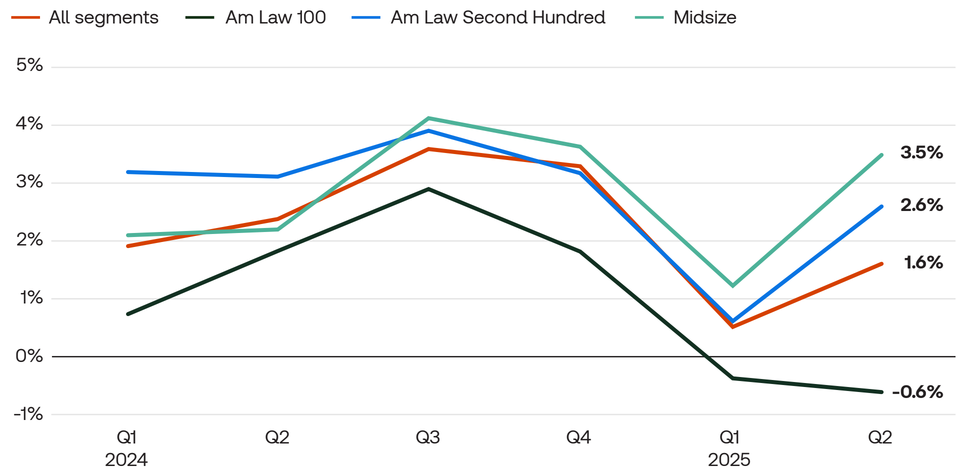
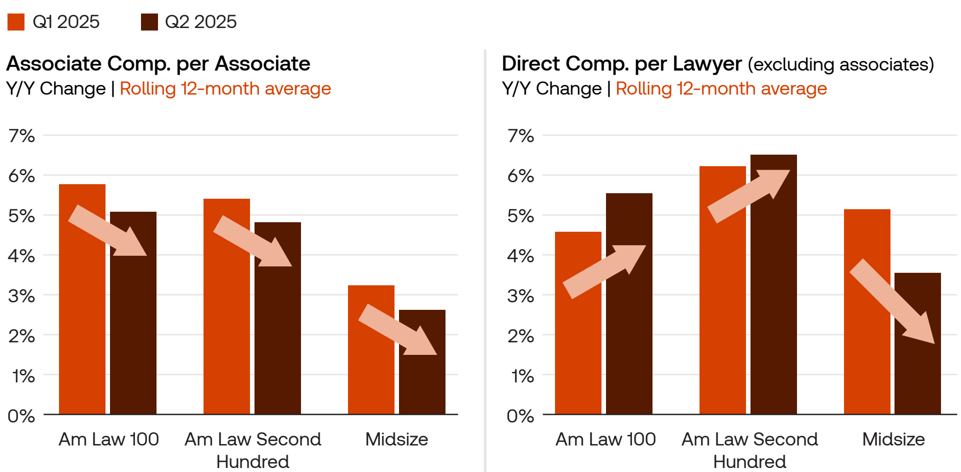
Quarterly demand growth

Y/Y Change



Source: Thomson Reuters 2025

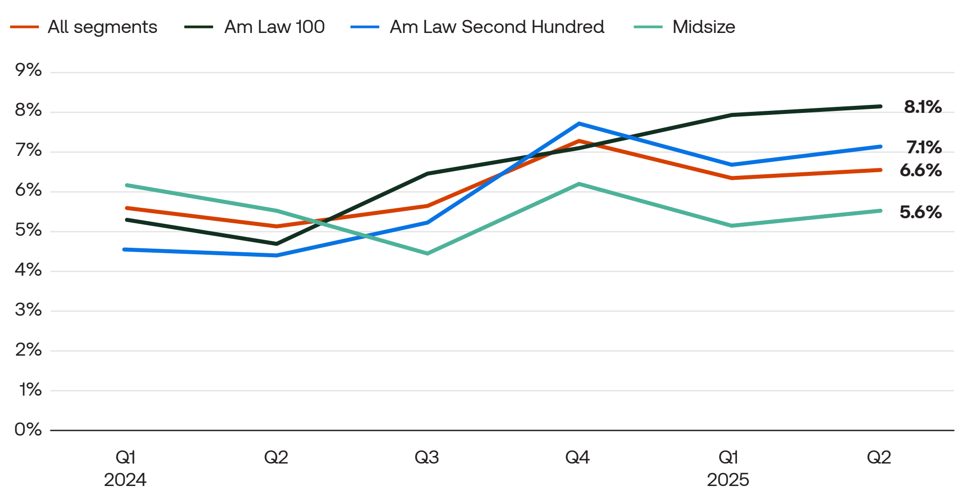
Direct expense growth by title



Source: Thomson Reuters 2025

Overhead expense growth

Y/Y Change | Rolling 12-month average



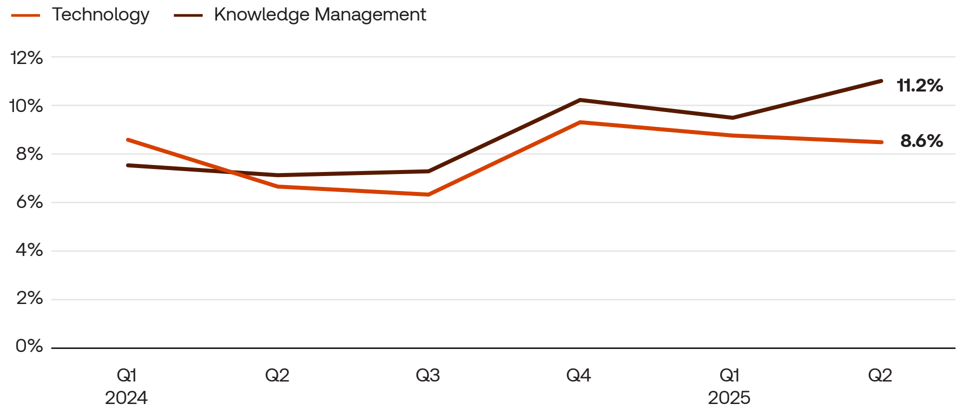
Source: Thomson Reuters 2025

still remains high, while per-lawyer direct expenses on non-associate lawyers are accelerating in all but the Midsize segment.

Given how firms have been burned in past wage pressure cycles by allowing expenses to balloon during demand spikes, this more cautious posture may reflect a deliberate effort to enact pre-emptive damage control. Still, the most persistent cost pressures may be coming from areas firms can neither easily control nor afford to ignore. Overhead spending in particular is rising briskly, with Am Law 100 firms seeing overhead costs surging to 8.1% average growth over the last 12 months, even with much less headcount growth. Meanwhile, the Am Law Second Hundred and Midsize segments are also seeing high rates of overhead increase. One reason that overhead costs remain so elevated is the industry's rapid investment in knowledge management and technology. With generative AI (GenAI) tools becoming increasingly proficient, firms are locked into a high-stakes arms race. In Q2, law firms grew their spending on technology by 8.6% on a rolling 12-month average and their spending on knowledge management by an even stronger 11.2%. These investments are increasingly seen as no longer optional, and are simply the cost of staying competitive in a shifting landscape.

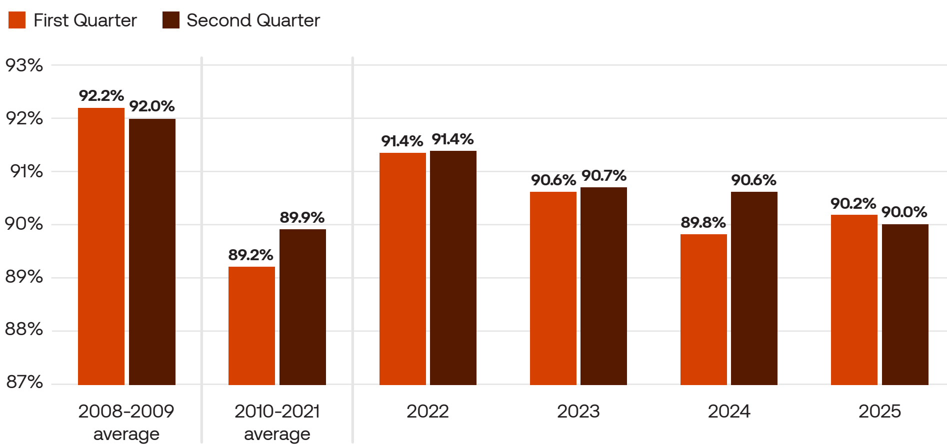
Technology vs. Knowledge Management spend growth

Y/Y Change | Rolling 12-month average



Source: Thomson Reuters 2025

Collections realization against worked (agreed)



Source: Thomson Reuters 2025

Indeed, there are potential signs of trouble already on the horizon. Collected vs. worked realization rates, for example, dipped slightly in Q2, slipping to 90.0%. On its own, this wouldn't be much of a concern, but the downwards trajectory is the opposite of what the seasonal trends would normally suggest. This negative direction could signal that clients are becoming more cautious with their cash, even as they recognize the greater necessity for the services their outside firms provide.

Once again, firms are locked in sharp, unavoidable competition — this time over technology and talent — just as more inflationary pressures are threatening to surface. Strong demand is encouraging rapid headcount growth, but if the economic winds shift, that expansion could quickly become overcapacity.

Given the increasingly uneven growth among segments, this eye of the storm has already given some firms headwinds while others fight tailwinds. While there are still more questions than answers here, one thing is clear: law firms would be wise to plan and prepare for things to get stormier, rather than assume the sun will keep shining until year's end.

1 Weekday-adjusted growth figures control for the impact of structural differences in year-over-year demand figures, *smoothing* out noise in the data to capture the *real* changes in demand.

2 Counter-cyclical practices are those that typically rise as other portions of the economy slow and include litigation, bankruptcy, and labor & employment.

3 Fees worked growth is a firm's total billable hours for a given period multiplied by the average worked rate.

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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