

Law Firm Financial Index

Q3 2025 Executive Report | Issued 11.10.2025

Tectonic pressure pushes firms to new heights

Even as pressures continue to mount, law firms found themselves reaching new heights in the third quarter of 2025. The Thomson Reuters Institute's Law Firm Financial Index (LFFI) rose eight points to a score of 63 as legal demand spiked to historic levels amid rising global instability. As firms move into the fourth quarter, the question is no longer whether 2025 will be profitable, but rather just *how* profitable — and just how rocky 2026 might be.

Indeed, this tectonic pressure resulted in a sharp spike in demand growth that defined the third quarter. Firms posted a 3.9% average increase over Q3 2024, an exceptionally strong performance that ranks Q3 2025 as the fourth-highest quarter for demand growth in the past two decades. That said, the comparison deserves context: the top three quarters all hail from 2021, when firms sharply rebounded from early pandemic lows. By contrast, Q3 2025 reflected far more *real* growth that was driven by sustained client activity rather than a return to baseline. In that light, Q3 2025's performance truly stands out on a historical basis.

This surge mostly is centered around transactional practices,¹ with Midsize firms leading the way by posting a 6.1% demand growth in transactional work compared to Q3 2024. The Am Law Second Hundred, conversely, saw the lowest performance with 3.5% transactional increase.

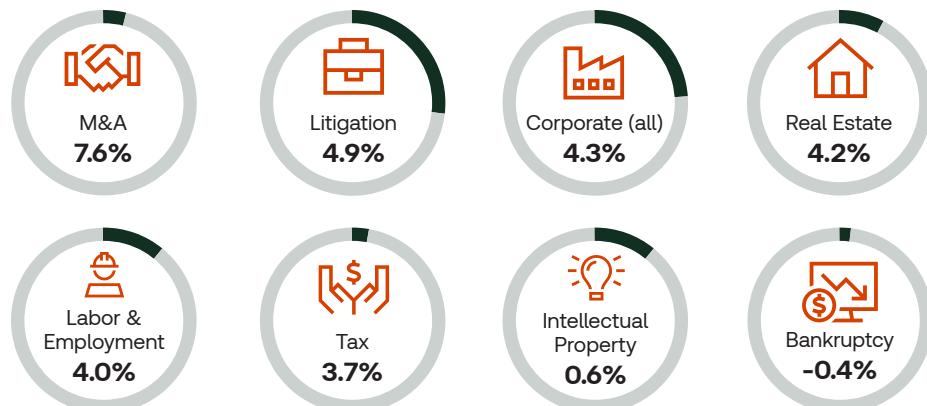
Among transactional practices, M&A work led the charge and was supported by robust activity in general corporate, real estate, and tax. As such, every transactional practice was intensely busy across all segments. By contrast, counter-cyclical practice² growth was more

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Practice demand growth

Y/Y Change | Q3 2025 vs. Q3 2024

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

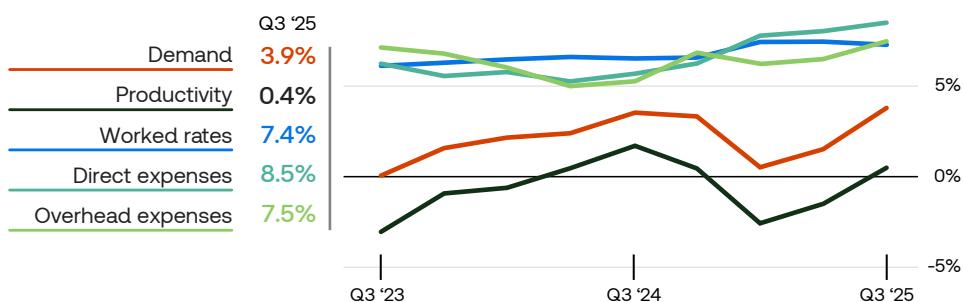


Source: Thomson Reuters 2025

LFFI key factors

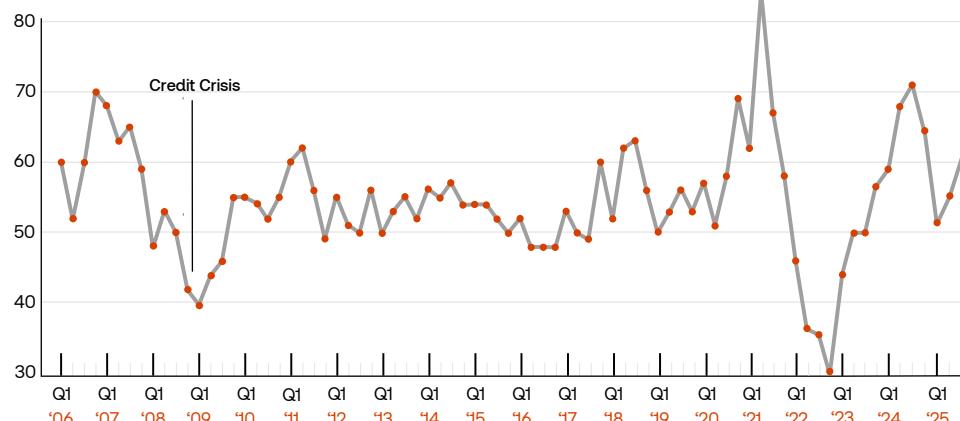
Y/Y Change | Q3 '25 vs. Q3 '24

LFFI SCORE: 63



Source: Thomson Reuters 2025

Law Firm Financial Index (LFFI)



Source: Thomson Reuters 2025



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Institute

concentrated among the Am Law Second Hundred and Midsize firms, with the Am Law 100 struggling to perform at the same level. Indications are that demand is seeing increasing mobility in the market, with corporate clients (especially the largest) seeking savings by moving some of their work to firms that charge lower rates, which helps these legal buyers maintain their budgets despite soaring hourly rates from their outside law firms and their own expanding legal needs.

As a result of these factors, firms outside the Am Law 100 are growing fees worked³ at a pace equal to — or even faster than — their Am Law 100 counterparts, a historical rarity in the market that's worth noting. However, thanks to the Am Law 100's advantage in worked rate growth, overall performance in fees worked is far closer among the segments than the gaps in demand growth may indicate.

This segmentation is also reflected in hiring trends. As the first months of the annual hiring season pass, many firms continue to follow the tradition of elevated post-pandemic hiring patterns. Headcounts are up an average of 3.2% year-over-year for law firms, but growth is concentrated in the Am Law Second Hundred and Midsize firms. The Am Law 100 remains more reserved, consistent with its emphasis on raising rates instead of hours worked.

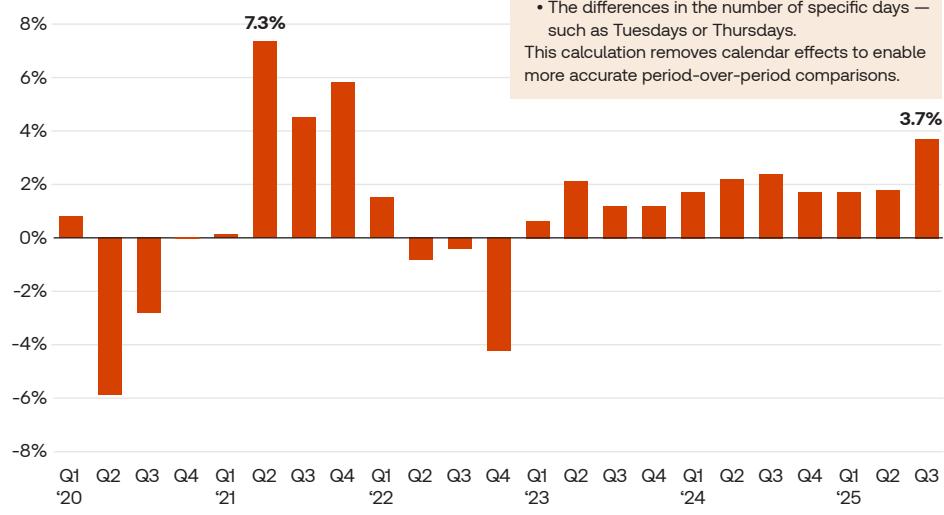
Where this becomes potentially problematic is in expenses. Headcount isn't free, of course, and talent, along with everything else, is getting more expensive. The last time firms saw this level of demand growth — in 2021 and early 2022 — it helped trigger a fierce bidding war for talent that drove up associate pay by double digits. That hasn't happened in Q3 2025, at least not yet. In fact, associates' share of direct expenses is growing more slowly than that of senior talent. Still, growth in these categories remains elevated and is rising rapidly among Am Law 100 firms.

While direct expenses are climbing at a rapid, albeit stable rate, overhead expenses are accelerating. Firms are currently engaged in

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Weekday-adjusted demand growth

Y/Y Change



Weekday-adjusted (WDA) demand is a new metric that accounts for:

- The working day difference between months.
- The differences in the number of specific days — such as Tuesdays or Thursdays.

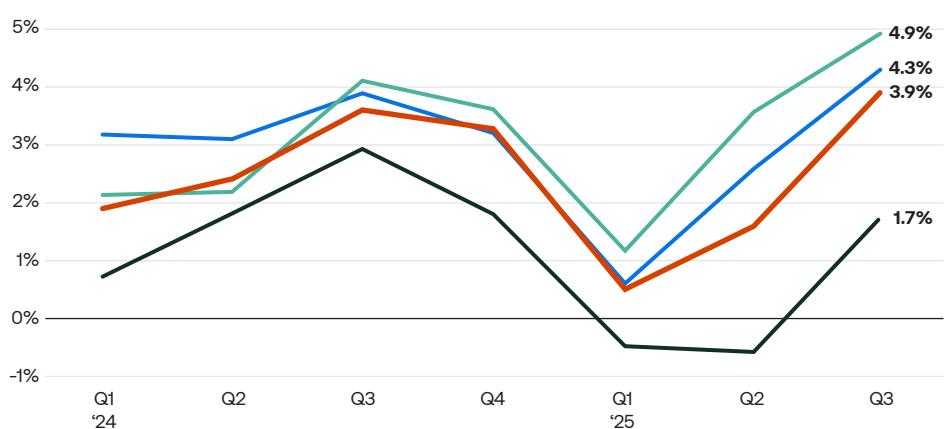
This calculation removes calendar effects to enable more accurate period-over-period comparisons.

Source: Thomson Reuters 2025

Quarterly demand growth

Y/Y growth

All segments — Am Law 100 — Am Law Second Hundred — Midsize

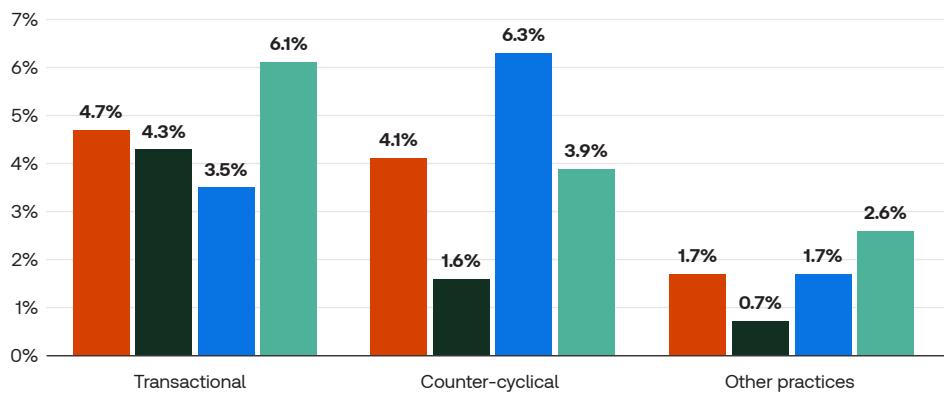


Source: Thomson Reuters 2025

Practice demand growth

Y/Y Change | Q3 '25 vs. Q3 '24

All segments — Am Law 100 — Am Law Second Hundred — Midsize



Source: Thomson Reuters 2025

stiff competition not just for talent, but also for technology, and this has pushed overhead expenses up by nearly 5% year-over-year. Legal tech and knowledge management spending have skyrocketed, both growing north of 11% year-over-year. This marks the third consecutive year of sizable investment in these areas, with the pace only accelerating.

While firms aren't in danger territory yet when it comes to their financial metrics, it's easy to see echoes of the 2022-23 downturn in the legal market, when pandemic-era demand vanished suddenly while inflation saddled firms with rising expenses, mostly because of new hiring. The lesson remains: Demand can disappear overnight, but expenses rarely do.

The tectonic pressure driving firms upward in Q3 2025 has yielded impressive results. Law firms increased revenue per lawyer by an average of 6.6% year-over-year and are set to deliver double-digit profit growth for the full year.

Just as tectonic forces can elevate mountains, however, they can also trigger earthquakes. The global economic and geopolitical landscape remains deeply unstable, and there's little indication that conditions will improve anytime soon. While firms are eagerly capturing as much of the upside activity as they can, the downside risk still looms large.

As we look ahead, the ground beneath the industry is anything but settled. Firms must brace for potential tremors, because in a market shaped by ground-shifting dynamics, stability is often less certain.

1 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.

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

Lawyer FTE growth

Percent change since January 2023

All segments — Am Law 100 — Am Law Second Hundred — Midsize

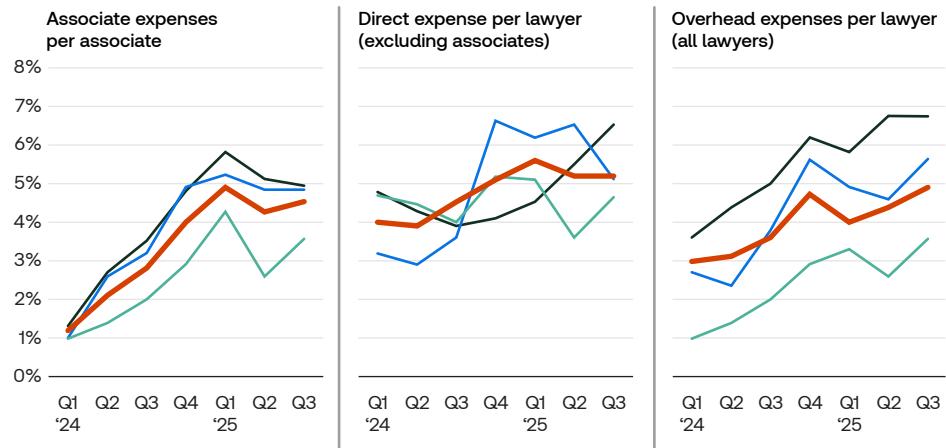


Source: Thomson Reuters 2025

Per-lawyer expense growth

Y/Y Change | Rolling 12-month average

All segments — Am Law 100 — Am Law Second Hundred — Midsize

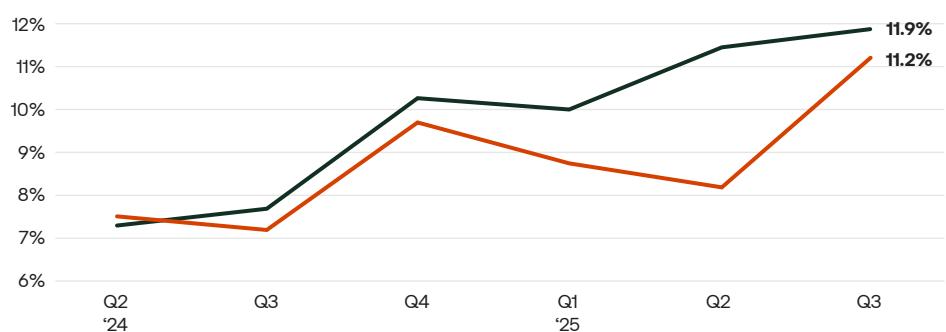


Source: Thomson Reuters 2025

Technology vs. Knowledge Management spend growth

Y/Y Change | Rolling 12-month average

Technology — Knowledge Management



Source: Thomson Reuters 2025

This report utilizes information from the Thomson Reuters Financial Insights competitive intelligence platform. For additional details on the data underpinning these reports or to uncover the latest granular and tailored information on the large law firm industry, please contact Bryce Engeland at Bryce.Engeland@thomsonreuters.com or visit the customer support [website](#).



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