

Australian Legal Market Midyear Update

EXECUTIVE REPORT - ISSUED 23 FEB 2026

Across the Australian legal market, firms are seeing shifting growth and strategy

Australian law firms enter the back half of FY 2026¹ on solid footing, although the data reveals a legal market working harder to gain and maintain momentum. Worked rates for the average firm rose 4.7% year-to-date through December, which is respectable, but a step down from the post-pandemic surge that saw an average 5.4% quarterly growth since FY 2022. Compared to United States law firms, which continue pushing rates higher each year, Australian firms' deceleration looks less like consolidation and more like a ceiling.

What's keeping Australian firms competitive is demand. At 4.8% year-to-date, growth sits a full percentage point above the average quarterly pace seen since FY 2022, which represents healthy, if not record-breaking territory.

The practice-level picture is broadly encouraging, with both transactional² and counter-cyclical³ practices accelerating their growth paces as the latter group reverses its decelerating course. Among all practices, workplace relations leads at 9.9% year-to-date growth, with corporate general close behind at 7.7%. Real estate and banking & finance are contributing steadily, and both the transactional and counter-cyclical categories are performing well overall.

However, a closer look shows some potential warning signs. For example, the flagship practices of each macro-category are moving in opposite directions. Insolvency & restructuring — the bellwether for counter-cyclical strength — is surging at 7.9%; meanwhile, mergers & acquisitions (M&A) sits in contraction at -2.1%. That divergence may say less about law firm strategy and more about the broader Australian economy. If dealmaking remains subdued while bankruptcies and restructurings accelerate, transactional practices could face strong headwinds in the quarters ahead.

Law firm productivity tells a more nuanced story. Hours worked per month ticked up slightly for the average qualified fee earner (QFE⁴), but the gains aren't evenly distributed. Non-equity partners recorded their third consecutive productivity decline, extending a slide that began in FY 2024. Associates are also slightly down. Yet senior associates and equity partners are more than compensating, logging increased work hours that keep the overall numbers stable. One possible explanation — and one that may be worth watching — is generative AI (GenAI). If firms are deploying these advanced tech tools most heavily on the research, drafting, and document review tasks that traditionally filled junior and mid-level associate hours, we'd expect to see exactly this pattern — compression in the middle ranks while senior lawyers, who spend more time on client-facing and strategic work, remain insulated. While it may be too early to draw firm conclusions, the distribution of hours may be an early signal of how GenAI is reshaping the leverage model.

There is also a note of caution from the demand side. Thomson Reuters Market Insights data shows that Australian general counsels (GCs) are growing more conservative in their spending outlook. Net spend anticipation⁵ for overall legal work dropped to 0 points compared to prior periods, meaning as many GCs are anticipating a decrease in their legal spend as are expecting an increase.

International legal spend tells a different story: Overall GCs are increasingly looking outward, with the Asia-Pacific and Latin American regions emerging as particularly active. Europe, by contrast, has cooled. Although Australia's anticipated domestic spending is more modest, the overall strength of its regional market suggests meaningful opportunities closer to home.

Finally, on the expense side, firms are showing more discipline. Direct expenses⁶ are growing at 7.3% on a rolling 12-month basis, which is notably cooler than the 9% pace recorded at the end of FY 2025. Indirect expenses⁷ has likewise decelerated, though it remains elevated at 7.8%. These figures are roughly comparable to those

Key performance indicators

Y/Y Change | YTD Dec: FY 2026 vs. FY 2025

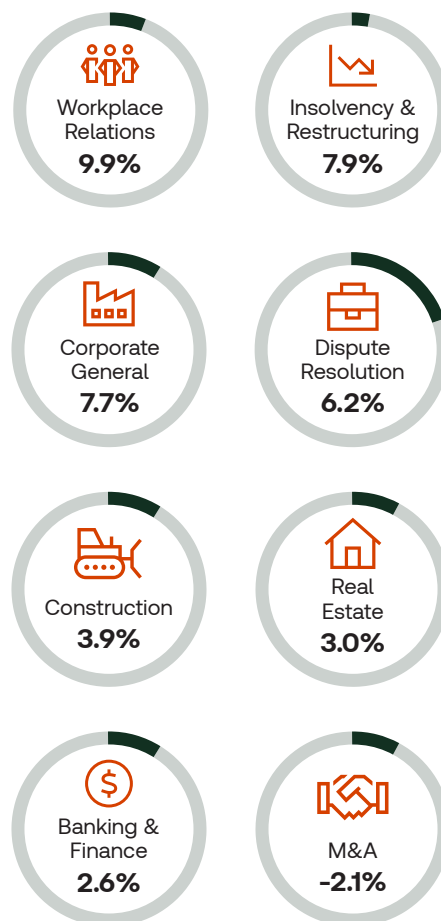
Demand	4.8%
Worked rates	4.7%
Fees worked	9.8%
Utilisation	0.1%
Lawyer headcount	4.8%

Source: Thomson Reuters 2026

Practice demand growth

Y/Y Change | YTD Dec: FY 2026 vs. FY 2025

Circular band surrounding practice is equal to proportion of hours worked in FY 2025.



Source: Thomson Reuters 2026

at US law firms, but with one important distinction: Australian firms are growing headcount far more aggressively, up 4.6% at the Q2 mark. That means per-lawyer expense growth is being well contained, tracking in line with productivity and rate gains rather than outpacing them.

Market-wide averages only tell part of the story, however. Beneath these overall numbers, three distinct law firm segments are pursuing very different strategies — and seeing very different results.

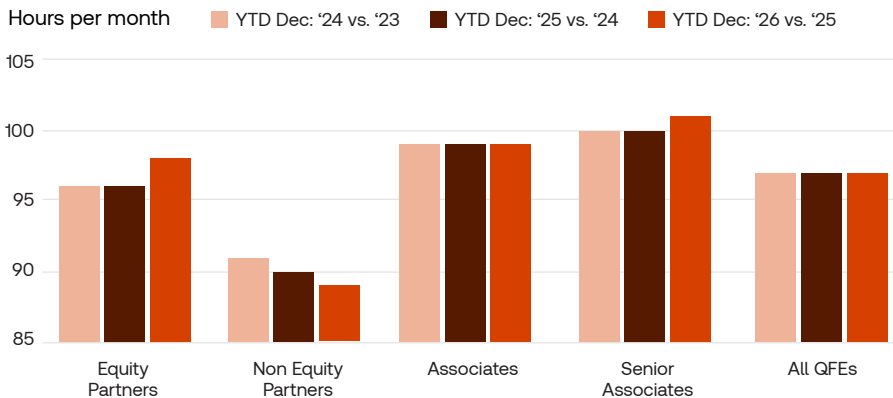
What the averages were hiding

Last year’s *Australia State of the Legal Market*⁸ report highlighted the intensifying competition between the Big 8 and the ambitious group of *Large* law firms that are challenging their dominance. That two-segment lens captured a real shift — Large firms had closed the profitability gap significantly, with half of the top 10 firms by profits per equity partner now sitting just outside the traditional elite. However, as we examined this year’s data more closely, a more nuanced picture has emerged. The Large category, it turns out, was masking two very different stories.

This midyear report introduces a refined *three*-segment framework, separating the former Large group into two distinct cohorts, the new Large and Midsize firms. The distinction matters because each segment is pursuing a fundamentally different strategy. The Big 8 are leaning into pricing power and cost discipline, while Large firms are betting on aggressive expansion and demand capture; and Midsize firms are charting a more measured, balanced course.

And of course, this divergence didn’t emerge overnight; rather, it’s been building for years, but was just obscured by how the data was grouped. Since FY 2022, the combined Large segment appeared to be closing the gap with the Big 8, outpacing them in profits per lawyer (PPL) growth. However, when we separate Large from Midsize firms, it reveals a different story. The firms now classified as Large grew PPL by 27.4% since FY 2022, while Midsize firms managed just 3.1% growth. That means that the growth seen by Midsize firms was much closer to the Big 8’s 7.1% growth than it was to their former stablemates. What looked like a broad-based challenge to the elite was, in fact, concentrated among a smaller group of high-performers that were pulling the average upward.

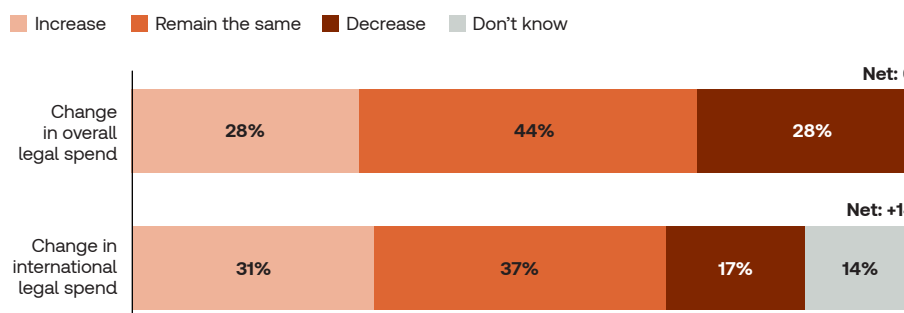
Hours per lawyer



Source: Thomson Reuters 2026

Net spend anticipation: overall and international

YTD: FY 2026 | Average Australian legal buyer



Source: Thomson Reuters 2026

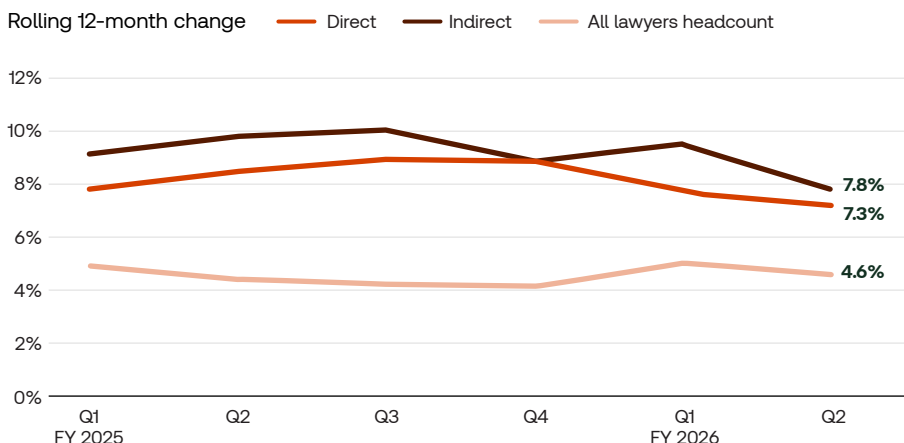
Net spend anticipation in the next 12 months

YTD: FY 2026 | Average legal buyer

Do you anticipate an increase or decrease in your overall legal spend in the next 12 months?	Value
Asia Pacific	+21
Latin America	+19
United States	+16
Canada	+12
United Kingdom	+5
Mainland Europe	-3

Source: Thomson Reuters 2026

Expense vs. lawyer headcount growth



Source: Thomson Reuters 2026

The demand story may illustrate this best. Year-to-date, Big 8 firms have posted demand growth of 2.7%, with Midsize firms close behind at 2.4%. Large firms, however, remain in a league of their own at nearly 7%, or roughly double their peers. The question heading into the back half of FY 2026 is whether that divergence holds.

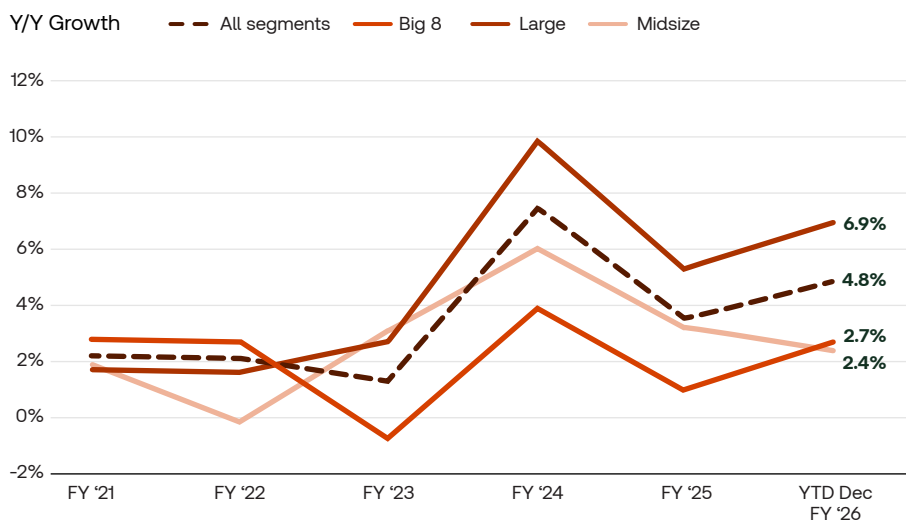
At the practice level, the segments are separating too. The Big 8 have tilted decisively toward transactional work over the past three years, while Large firms have oscillated between transactional and counter-cyclical leadership depending on market conditions. Midsize firms had been leaning increasingly counter-cyclical since late 2024; but that positioning faltered this past quarter, with counter-cyclical demand dropping sharply with transactional strength unable to compensate.

A similar key divergence emerged in the expense trends, in which clear differences across segments become apparent. Large firms are demonstrating the most aggressive spending pattern, with direct expenses rising by 47.3% and overhead expenses increasing by 51.1% compared to 2022 levels. By contrast, the Big 8 have shown the smallest increases in expenses, recording a 32.9% rise in direct expenses and a 33.0% increase in overhead expenses relative to those costs in 2022. Midsize firms occupy a middle ground between these two segments in terms of expense growth.

Overall, the Australian legal market enters the latter half of FY 2026 from a position of resilience, but with increasingly varied strategic paths being pursued by different firm segments. While demand remains strong and profitability solid, particularly on a per equity partner basis, growth is no longer so evenly distributed. Large firms have emerged as the clear leaders in demand expansion, supported by aggressive investment, while the Big 8 have prioritized rate growth and cost discipline over volume. Midsize firms continue to recalibrate, balancing counter-cyclical exposure with moderation in both expenses and growth.

As geopolitical and economic uncertainty persists, these divergent strategies will play a critical role in shaping competitive positioning, resilience, and long-term performance of Australian law firms. Indeed, the evolving landscape underscores the idea that *adaptability* — not scale alone — will define success in the country’s term performance.

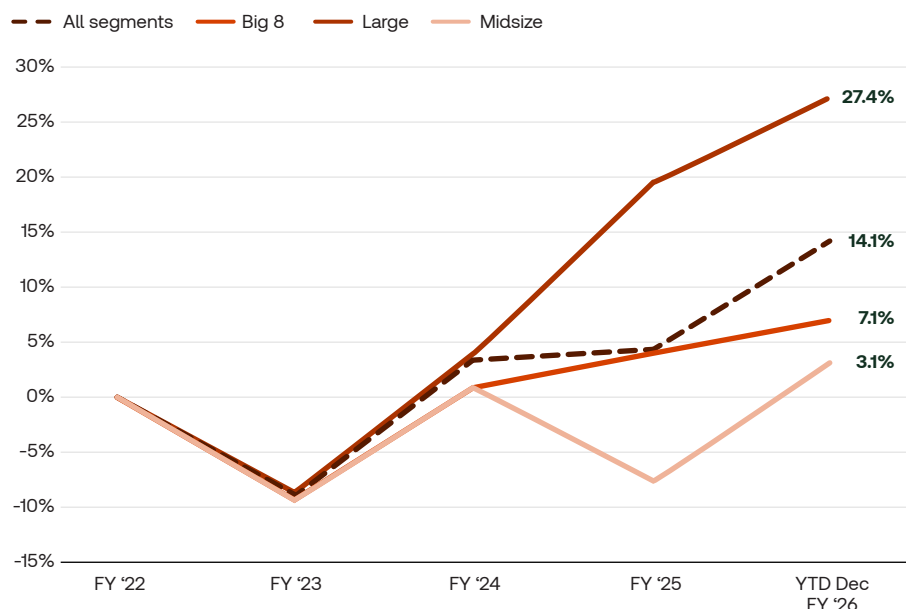
Demand growth



Source: Thomson Reuters 2026

Profit per lawyer growth

Rolling 12-month growth indexed since 2022



Source: Thomson Reuters 2026

- 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 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.
- 3 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.
- 4 Firm-employed lawyer, full-time-equivalent, or qualified fee earners.
- 5 Net spend anticipation takes the percentage of respondents that anticipate *increasing* their spend and subtracts the percentage of respondents that anticipate *decreasing* their spend.
- 6 Direct expenses are those expenses directly related to QFE compensation and benefits.
- 7 Indirect expenses are those costs not directly attributed to QFEs, such as support staff compensation, technology, rent, and office expenses.
- 8 Thomson Reuters Institute. *Australia State of the Legal Market 2025*. Thomson Reuters, August 2025; available at <https://www.thomsonreuters.com/en-us/posts/legal/australia-legal-market-2025>