



2026 Report on the State of the New Zealand Legal Market

Turnaround in demand yields
steady profit, revenue gains

A strong and welcome outlook

Following a lean period, the overall economic outlook entering 2026 for New Zealand law firms is the strongest it has been in several years. Law firms' strategic plans to pull out of the pandemic doldrums have borne fruit, with profits reaching double-digit growth for the first time since 2021, and overall revenue growth once again approaching pre-pandemic levels.

The building blocks for this turnaround are multi-faceted. Demand has begun to rebound — not only for the transactional work¹ that constitutes more than half of overall demand, but for counter-cyclical work² that has spurred higher than expected demand growth. In addition, worked rate growth — while perhaps not at the level of some international peers — has maintained a steady and consistent climb. And expenses remain at a manageable level following a period of high indirect expense rates and the 2022-'23 war for talent, which now has allowed profits to rebound to their highest levels in four years.

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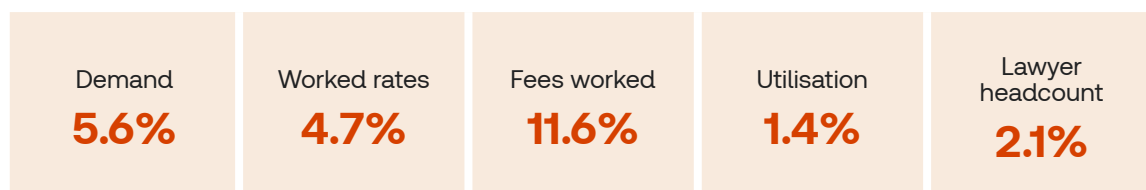
Still, there are some existential threats still looming, such as law firms' heavy reliance on transactional work, the emergence and growth of AI, and the impact of the country's overall market performance as the New Zealand economy continues to rebound. Taken together, this means there are no guarantees that these strong performances will last, and law firms will need to maintain adaptability and flexibility in order to succeed in an increasingly competitive global market.

For now, however, many New Zealand firm leaders can be assured that the strategic goals they've pursued over the past several years have created a strong economic foundation upon which to build.

FIGURE 1:

Key performance indicators

Year-over-year change | FY 2025 vs. FY 2024



Source: Thomson Reuters 2026

- 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. For the purposes of this report, the counter-cyclical practice group is composed of disputes & litigation, insurance defence, workplace relations, and insolvency & restructuring.

A new demand paradigm

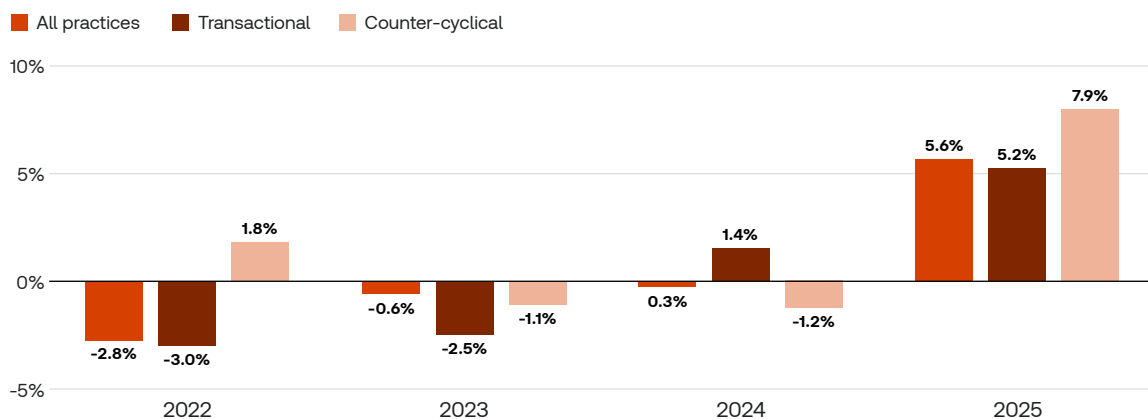
When examining why the past year represents a profitable bounce-back year for New Zealand law firms, the place to begin is *demand*. Given the rough economic period brought on by the pandemic, overall demand quickly swung downwards year-over-year in 2022. This shift was particularly driven by transactional practices, which saw substantive decreases in both 2022 (-3.0%) and 2023 (-2.5%).

Over the past two years, however, New Zealand's law firms have worked hard to reverse those demand figures. Indeed, 2024 saw demand begin to stabilise, with overall demand roughly equal year-over-year and transactional demand, notably rising for the first time in three years. Then, in 2025, firms saw their work bear fruit, with 5.6% demand growth overall.

FIGURE 2:

Demand growth from 2022 to 2025

Year-over-year change



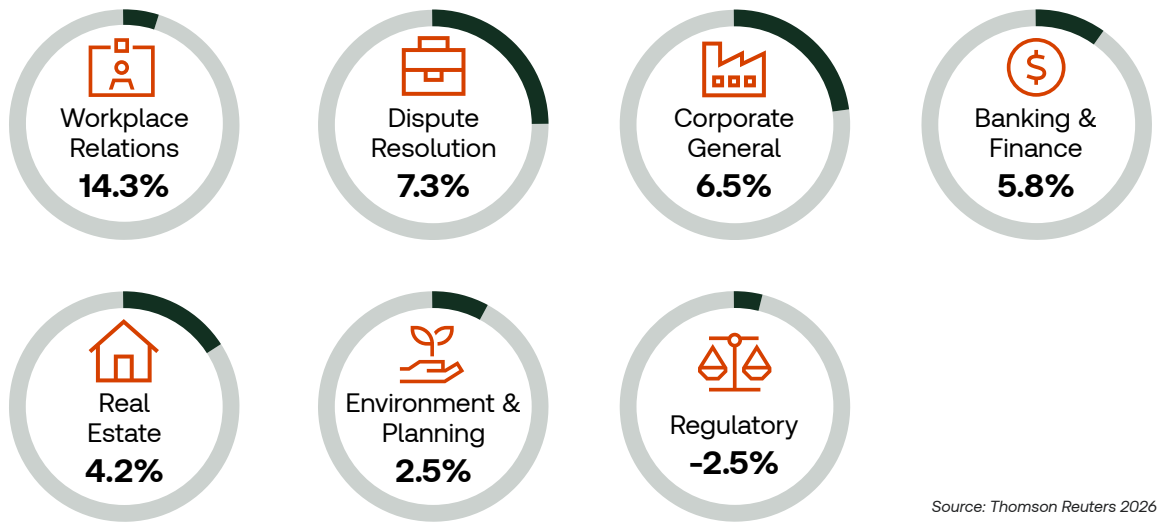
Source: Thomson Reuters 2026

However, while transactional work may have been the headline story from 2022-'24, it was not the driving force in the past year. Counter-cyclical work has risen sharply over the past year, achieving year-over-year growth that the practice group had not seen in some time. Examining demand growth quarter-by-quarter, the emergence of counter-cyclical demand as a market-redefining force began in Q2 2025, in which it equalled transactional demand growth, before pushing past it through the rest of the year. By Q4 2025, counter-cyclical demand had grown 13.1% over Q4 2024.

The result of all this was overall strong performance for top counter-cyclical practice areas, particularly dispute resolution which grew to comprise one-quarter of all legal demand. Even some transactional practices, such as banking & finance and corporate general work, once again began to approach their pre-pandemic demand levels as the overall market continued to rebound. In fact, of these top seven practice areas, only regulatory work saw a decline in 2025.

FIGURE 3:
Practice demand growth 2025

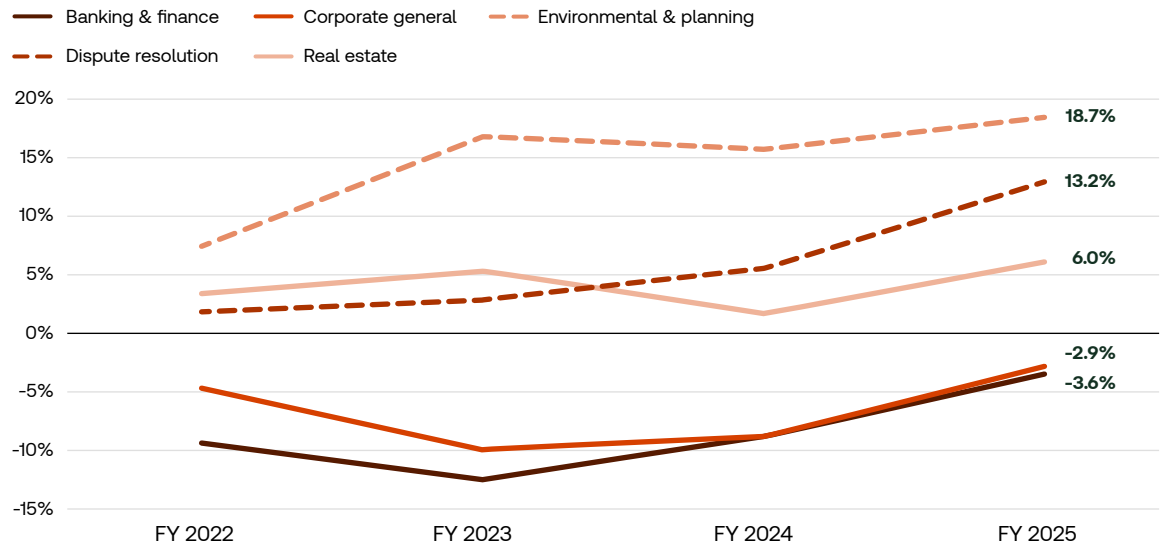
Year-over-year change | Circular band surrounding practice is equal to proportion of hours worked in FY 2025.



Source: Thomson Reuters 2026

FIGURE 4:
Main practices demand growth indexed since 2021

Percent change from end of 2021



Source: Thomson Reuters 2026

Economic building blocks: Rates, utilisation & expenses

While demand may serve as the primary reason behind firms' economic resurgence, New Zealand law firms have continued to post strong worked rate and utilisation growth, both of which has provided a baseline for those demand gains to truly take hold.

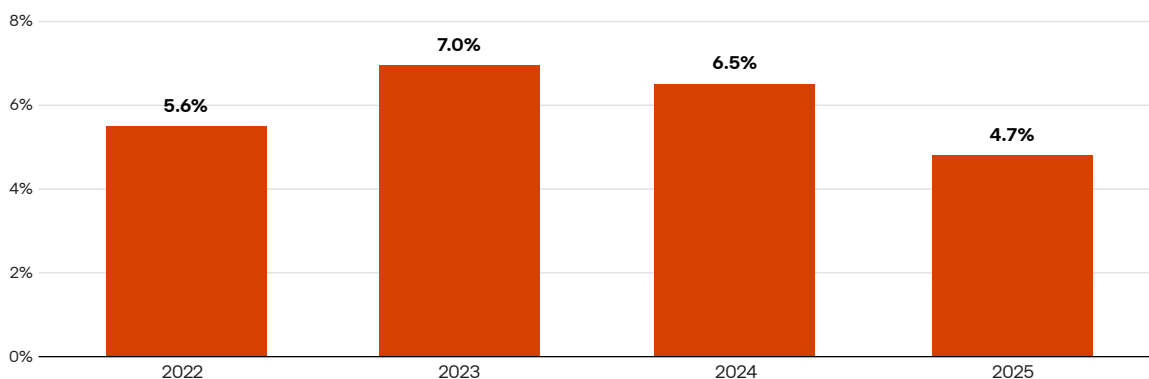
Following more aggressive rate growth from 2022-'24, firms did slow their rate increases slightly in 2025, sitting at 4.7% for the year. Indeed, many large law firms in Australia and the United States have undertaken a more aggressive strategy towards rate increases in recent years; but more recently, they have begun to stratify the market into clear victors and laggards.

On the other hand, New Zealand firms have taken a steadier approach that has been rewarded with consistent year-over-year gains. Rather than being seen as a slowdown, this strategy should be seen as one in which firms are no longer looking to compensate for less than desired demand. Instead, firms should be seen as reaping the benefits brought by the return of demand growth.

FIGURE 5:

Worked rate growth from 2022 to 2025

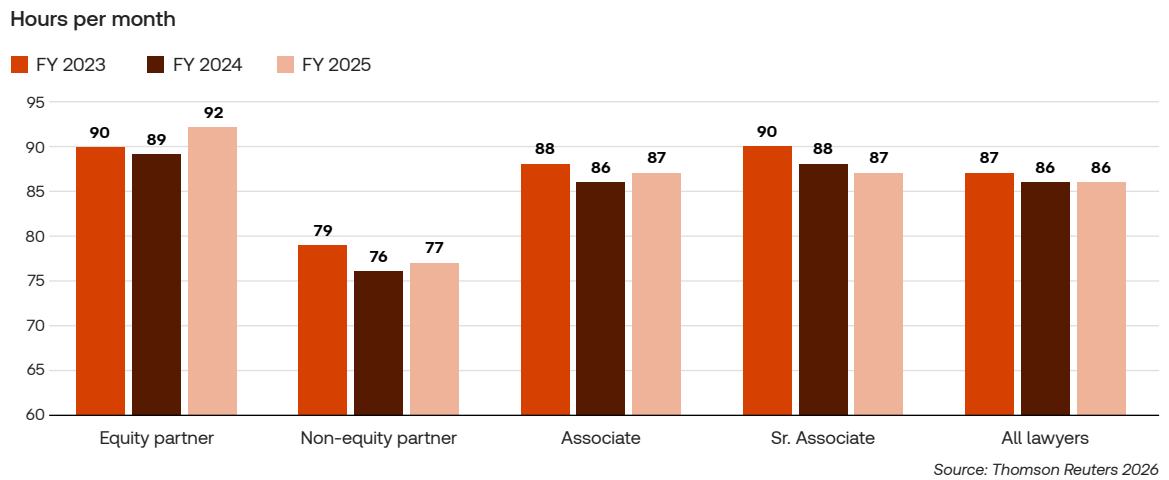
Year-over-year change



Source: Thomson Reuters 2026

This worked rate growth should also be seen as steady given that it is paired with strong utilisation rates. New Zealand firms are facing potential changes to the billable hour paradigm given the emergence of AI and its use in legal workflows, both internally and externally. To this point, however, hours worked per lawyer remains strong, actually increasing 1.4% overall over FY 2025. Notably, equity partner utilisation has *increased* three hours per equity partner over the past year, further bolstering overall revenue numbers for the firms' highest charging earners.

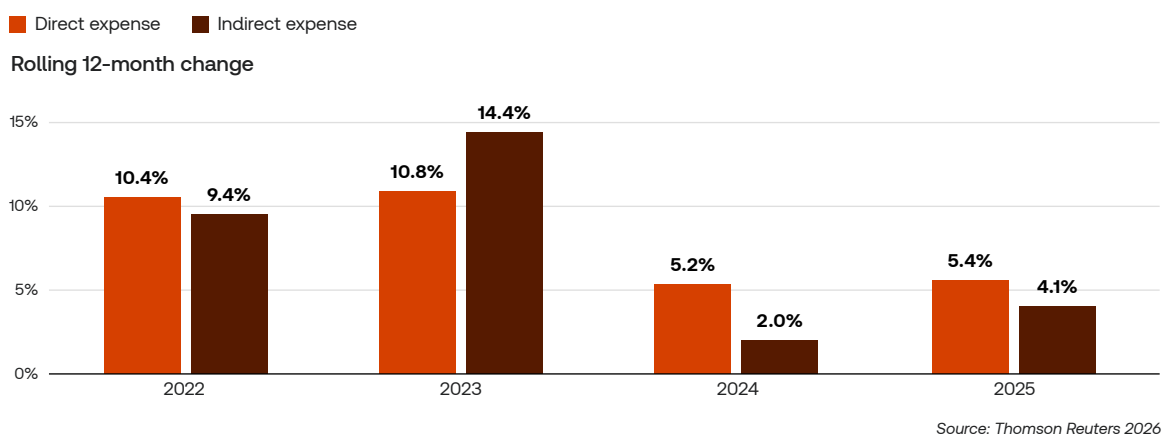
FIGURE 6:
Utilisation by lawyer type from 2023 to 2025



On the expense side of the ledger, the primary goal of many New Zealand law firms in 2024 was to stabilise expenses following a few years of heavy recruiting and marketing & business development investment. This endeavour was largely successful, as between 2023 and 2024, indirect expense growth massively slowed to 2% from 14.4%. Direct expense growth also slowed to 5.2% from 10.8% over the same period.

Now that those expenses have begun to stabilise, firms in 2025 are beginning to reinvest in those indirect expense areas once again, particularly in technology (up 7%) and knowledge management (up 10%). While indirect expense as a whole did grow just 4.1% over the past year, and direct expense growth remains largely steady, this may be an area for law firm leaders to watch in the hopes of avoiding the same indirect expense cycle they saw from 2020-’23.

FIGURE 7:
Expense growth from 2022 to 2025



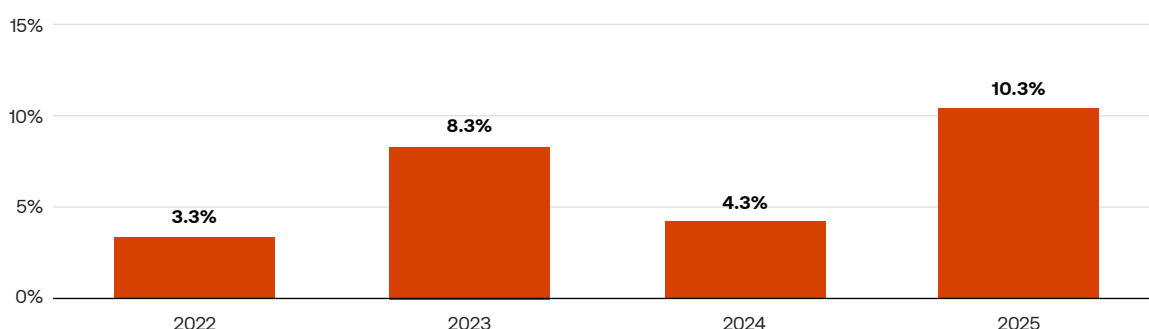
A burgeoning bottom line

The return of demand growth, coupled with consistent rates, stronger utilisation, and decreasing expenses, has rewarded many New Zealand law firms with some of their strongest economic performance metrics over the past several years. Following an up-and-down period of three years, overall revenue growth has once again reached double digits, climbing to 10.3%. This was more than twice the level of revenue growth in 2024 and matches where firms were before the pandemic's impact.

FIGURE 8:

Revenue growth from 2022 to 2025

Rolling 12-month change



Source: Thomson Reuters 2026

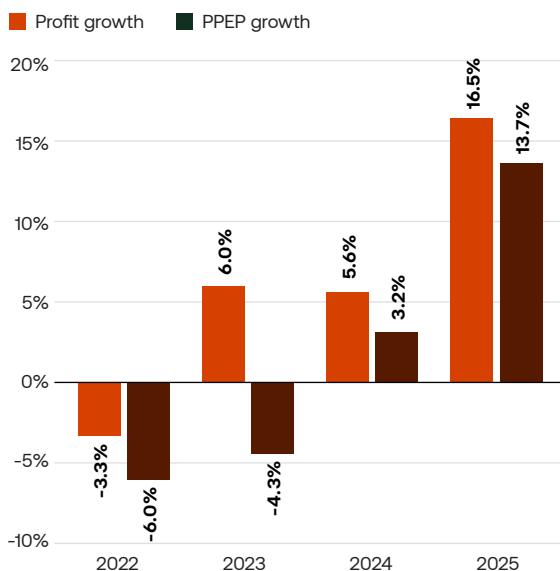
When combined with more subdued expense figures, this means that law firm profits overall have rebounded. For 2025, profit growth sat at 16.5% overall and profit growth per equity partner was 13.7%. While firms have not yet matched their pre-pandemic profit growth levels, it's clear they have rebounded strongly from their leaner years.

Law firm leaders may want to note profit margins, which reached 43.7% on average last year and have largely remained steady over the past four years, even with this recent shift between revenue growth and expenses. Impressively, New Zealand law firm profit margins remain higher overall than those at law firms in other regions due to New Zealand firms' overall leaner operations.

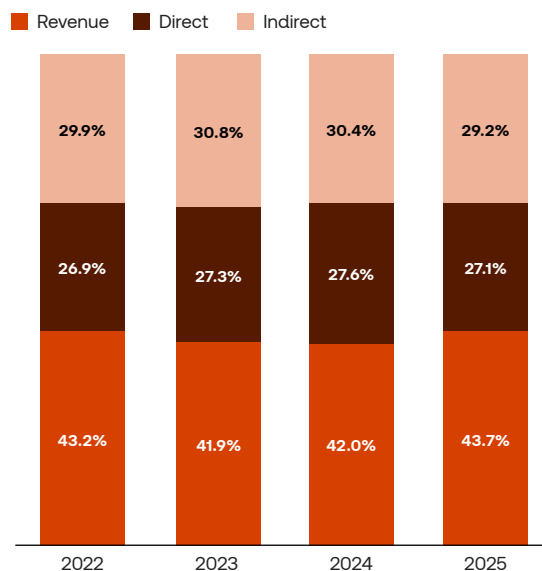
FIGURE 9:

Profit growth and profit margins from 2022 to 2025

Profit growth | Rolling 12-month change



Profit margins | Rolling 12-month change



Source: Thomson Reuters 2026

As noted in the *2025 Report on the State of the New Zealand Legal Market*,³ current performance is not necessarily indicative of future success. In particular, New Zealand firms remain highly reliant on transactional work, which represented 51.2% of total legal demand in 2025, an increase of 3.3 percentage points over the previous year. This enables strong performance when transactional demand bounces back as it has over the past six quarters; however, if that trend begins to reverse, law firms may find themselves in the familiar situation of looking to supplement that lost revenue in other ways.

3 *2025 Report on the State of the New Zealand Legal Market*, Thomson Reuters Institute (March 18, 2025); available at: <https://www.thomsonreuters.com/en-us/posts/legal/new-zealand-legal-market-report-2025>.

Looking forward

The global pandemic imposed a long tail of disruption on New Zealand law firms, cratering demand growth and shrinking profit margins. Firm leadership has instituted imperatives to stabilise expenses and reconstitute demand, and throughout the last year those efforts have largely been rewarded. Revenue and profits are beginning to approach pre-pandemic levels, allowing law firms to once again operate from a position of strength.

The rapid pace of change in the global economy only continues to increase, however. The pandemic is far from the only external factor that has impacted, and will continue to impact, New Zealand law firms — for example, the impact of AI and advanced AI-driven tools on legal work. In fact, 44% of New Zealand firms now have an organisation-wide generative AI tool, which promises to change how lawyers operate on a daily basis, according to Thomson Reuters Institute's *2026 AI in Professional Services Report*.⁴ Further, more than half of corporate legal respondents said they want their outside law firms to use AI, meaning more client pressure to innovate may be coming law firms' way.

Revenue and profits are beginning to approach pre-pandemic levels, allowing law firms to once again operate from a position of strength.

Another complication is that the domestic and global economic outlook remains volatile, potentially limiting firms' ultimate growth potential. It is notable that law firms were able to achieve such strong economic growth in the past 24 months, given the New Zealand economy's recession struggles over the same time period. However, high expenses in the form of associate salaries and a continued reliance on transactional work leave firms vulnerable, and if such work begins to slow globally, New Zealand firms could see their fortunes begin to reverse.

Now, however, following recent years of economic recovery, firm leaders have experience responding to large-scale, potentially existential threats. The strategies undertaken during these last several quarters of economic recovery, and the learned skills of flexibility and adaptability will serve firms well as they venture into an increasingly complex landscape.

Of course, the future is unknowable, even for the most adept firms; but after the past year's growth, New Zealand law firms can venture forth on more solid footing, for the first time after years of uncertainty.

⁴ *2026 AI in Professional Services Report*, Thomson Reuters Institute (February 9, 2026); available at: <https://www.thomsonreuters.com/en-us/posts/technology/ai-in-professional-services-report-2026>.

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