

Law Firm Financial Index

Q1 2026 Executive Report | Issued 5.13.2026

The law firm market settles for average, as the first raindrops start to fall

The Q1 2026 Law Firm Financial Index (LFFI)¹ score landed at 55 — tied for the Index’s exact historical average since its inception in 2006. That should surprise you. Am Law 100 firms pushed their hourly rate growth up 9.8% compared to 2025’s already record level, with the Top firms clearing 12%. Demand came in up 2.7%, roughly triple the long-run average. Those are not average inputs; and yet the output is dead average — a composite score that’s no different from the one the LFFI has been spitting out, on balance, for 20 years.

Clearly, something is eating the gains. Or, several things, it turns out.

Overhead expenses climbed more than a full percentage point to 8.3%. Productivity contracted after spending the last six months in positive territory. The widening performance gap between the largest firms and everyone else is dragging on the composite — a story we’ll unpack further below. And, not insignificantly, the war in Iran has introduced a new variable. Early data suggests the conflict is blunting both sides of the risk trade at once, suppressing the M&A work that thrives on deal-making and the restructuring work that thrives on distress. When a crisis freezes both the upside and the downside, it can create unusual performance anomalies. Pack your umbrella — it’s the kind of sky where you can’t tell what’s coming.

The segments start to split

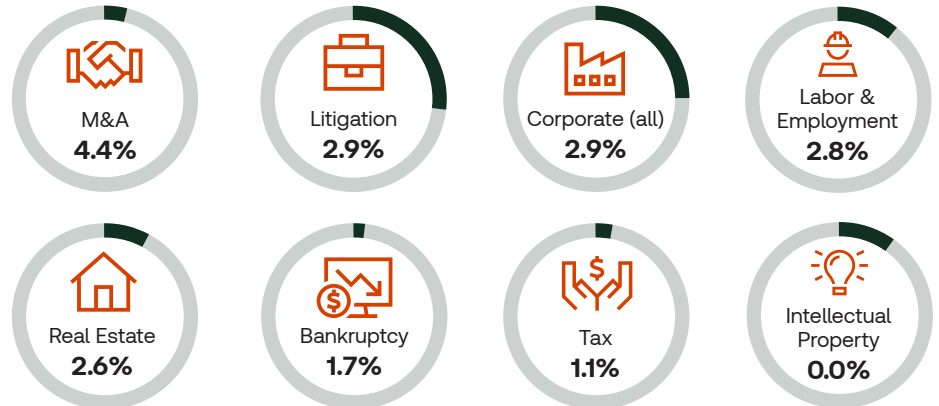
The rates picture may be the most complex story of the first quarter and, as always, it’s the headline at the start of the year. Where

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Practice demand growth

Y/Y Change | Q1 2026 vs. Q1 2025

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

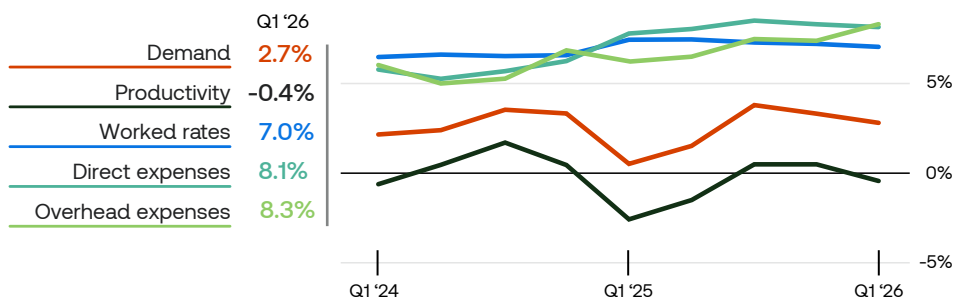


Source: Thomson Reuters 2026

LFFI key factors

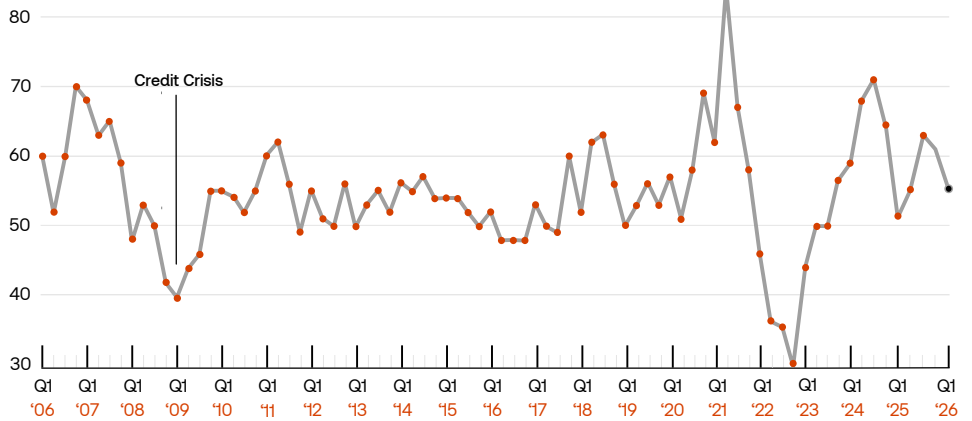
LFFI SCORE: 55

Y/Y Change | Q1 '26 vs. Q1 '25



Source: Thomson Reuters 2026

Law Firm Financial Index (LFFI)



Source: Thomson Reuters 2026

traditionally, law firm segments have tracked one another's behavior, Q1 saw a clean split in strategy. The Am Law 100 pushed worked rate growth to near double digits, averaging 9.8% compared to 9.3% throughout 2025, with the largest firms in particular pressing beyond 12%. By contrast, the Midsize segment pumped the brakes, slowing to 5.3% from 6.0% in 2025. Indeed, this represented the first time any segment has decelerated rate growth since 2021. The Second Hundred threaded the needle, holding steady at their 2025 pace of about 7%.

The split goes deeper than the topline numbers. Am Law firms have continued raising their standard rates faster than their worked rates, accepting steeper discounts off their *sticker price* to push up what clients actually pay. Midsize firms have spent two years doing the opposite, growing negotiated rates faster than standard rates. The implication is that Midsize firms could press prices higher but instead are choosing restraint, perhaps to capture price-conscious demand that we've seen migrating down-market. If that's the play, however, it isn't working — and that's a key reason the LFFI score dropped. Midsize firms are falling farther behind.

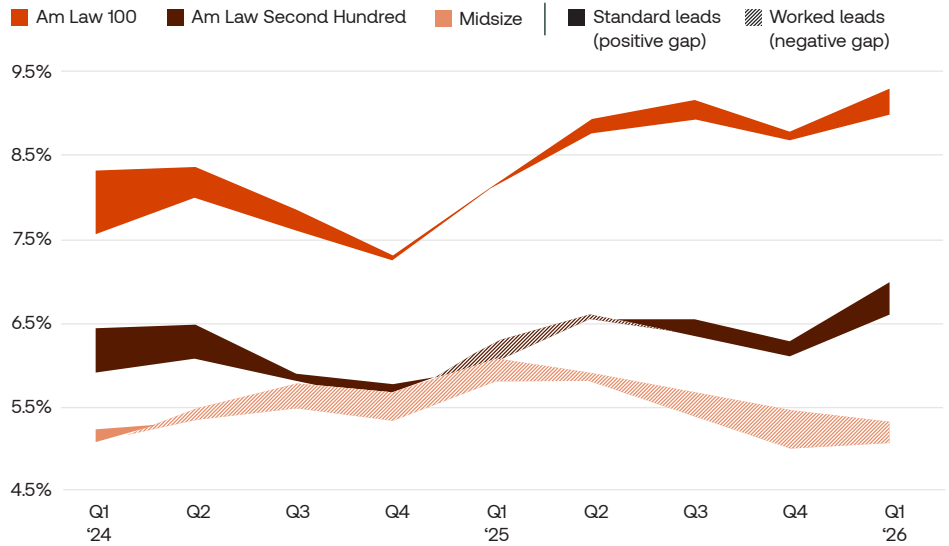
There's considerable evidence that legal buyers have been shifting demand to smaller, less expensive firms, and riding that wave has been profitable for those smaller firms. However, as of Q1, Midsize firms are seeing *less* demand growth than the entire Am Law 200 average, a group that includes firms that are cheerfully trading volume for higher rates. The Midsize segment is losing on both sides of that ledger. Fees worked² growth shows a widening performance gap between Midsize firms and everyone else. Expenses are rapidly accelerating for the segment — and are now outpacing fees worked growth — even as they hold steady elsewhere.

Layer in on top of that the segment's declining per-lawyer

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Difference in standard-worked rates

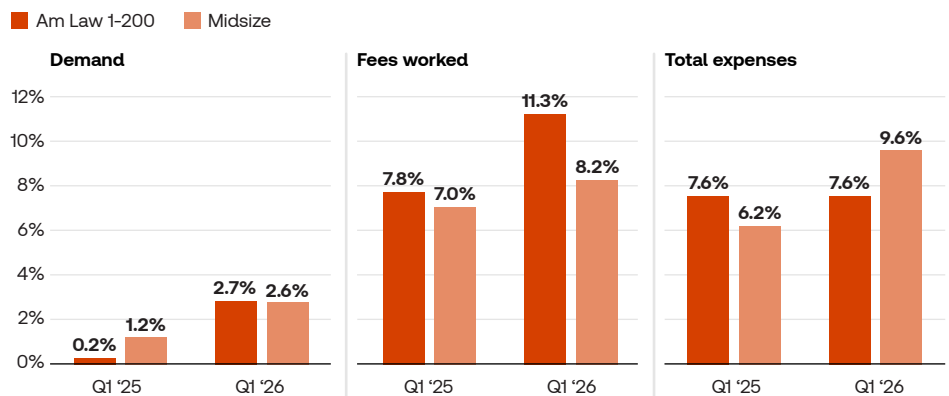
Rolling 12-month Change



Source: Thomson Reuters 2026

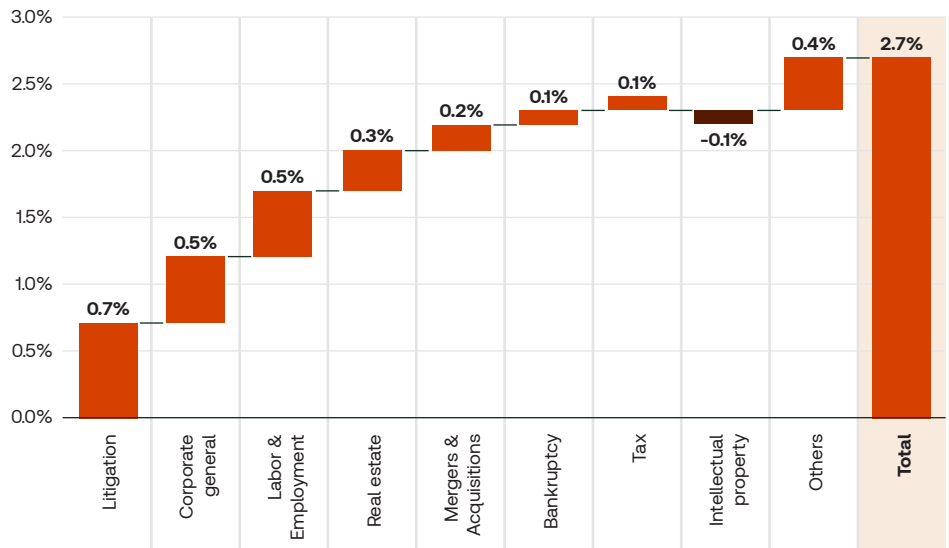
Midsize opportunity areas vs. the Am Law 1-200

Y/Y Change



Source: Thomson Reuters 2026

Breakdown of Q1 2026 - demand growth



Source: Thomson Reuters 2026

productivity, and Midsize firms' profit projections are running at roughly half the pace of their Am Law counterparts. No crunch is imminent, but this is starting to look increasingly like an Am Law world — and the technology arms race is making it more so.

The Am Law 100 leads all segments in tech and knowledge management spending per lawyer with 8.4% growth, a deliberate infrastructure bet that compounds fastest for firms with the revenue base to absorb it. The Am Law Second Hundred, meanwhile, is rapidly catching up and is now up 8.0%. For Midsize firms that are growing at a rapid but slowing pace of 6.2%, the distance isn't just financial. It's structural, and unfortunately, it's widening.

The shifting conditions

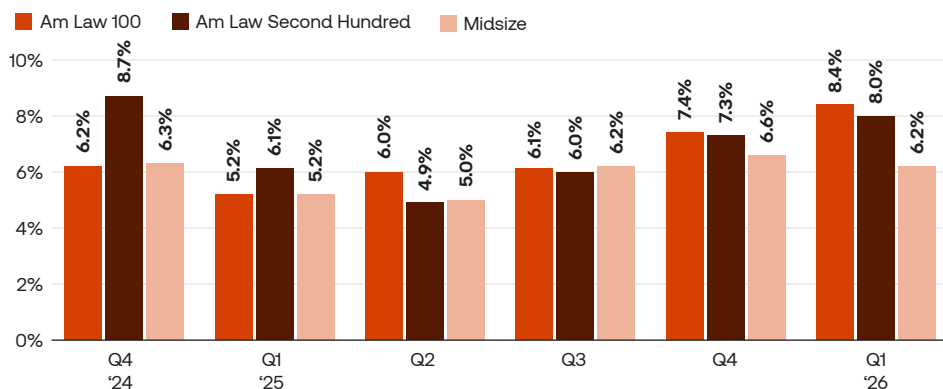
Demand growth may be decelerating, but Q1's 2.7% still runs well above the below-1% historical average. Litigation and corporate work each contributed 7 hours of growth per 1,000 hours worked, labor & employment added 5, and real estate 3. However, the more telling story is what the mix signals: transactional³ and counter-cyclical⁴ practices are growing at nearly the same pace — not a sign of balance, but of simultaneous deceleration, in which neither group is offering a clear directional signal.

Some of this is structural, of course, as firms lap the early-2025 demand surge and thus are now being measured against some of the strongest baselines in recent history.

Still, it's hard to ignore the Iran-shaped elephant in the room. Geopolitical instability has historically been net-positive for large-firm demand, but this crisis may be different. Early data suggests the war is blunting both sides of the risk trade simultaneously. For example, the M&A work pipelines started stalling in March as dealmakers waited for clarity, while restructuring mandates that normally surge during disruption

Tech & KM investment growth per FTE (Capital & Compensation)

Rolling 12-month Change



Source: Thomson Reuters 2026

were also frozen, because you can't price a reorganization when the floor keeps moving. We don't yet know whether this war effect is temporary or structural; and it's what we'll be watching most closely in Q2.

AI continues to drive investment and talent

Despite predictions that AI would thin law firm ranks, the headline on investment and talent is straightforward: Firms haven't traded headcount for hardware. Instead, they've gone all-in on both. An all-in view of technology and knowledge management spending (combining categories we normally report separately and folding in compensation for associated staff) shows overall industry investment is up 10.6%, almost three percentage points higher than at this point last year. At the same time, direct compensation per lawyer continues growing at roughly 5% across all segments, well above inflation, even as headcount growth remains robust.

The legal industry's AI story, so far, is additive rather than substitutive. That's part of why expenses are eating into what should be an exceptional profitability cycle.

Interestingly, it's the divergence in how firms are staffing that really tells the story. The Am Law 100 has pulled back on recruitment spending while slowing headcount growth, a move that indicates *selectivity*, not contraction. The Second Hundred is moving in the opposite direction, increasing its recruitment expenditure as its work volume strategy

now demands constant hiring. And the Midsize segment is pulling back on recruitment even as other costs outstrip revenue growth, a combination that raises uncomfortable questions about whether this is strategy or scarcity.

The coming storm: A sprinkle or a deluge?

All in all, law firms aren't weathering a storm, at least not yet. A score of 55 isn't exactly a warning klaxon, but it's a strange score for a market with inputs this strong. More concerning is that the trend line is clearly pointing down. Near-record rate growth and above-average demand are producing exactly average momentum. Some firms, particularly in the Midsize segment, are already feeling the misty rain that can preview darker thunder clouds.

The question for Q2 and the rest of 2026 is whether that rain will fall on the rest of the market — or whether 55 is just the floor upon which the law firm market lives now.

1 The LFFI is a composite score, representing the quarter-over-quarter change in the key drivers of law firm profitability, including rates, demand, productivity, and expenses. Positive factors driving firm profitability will produce a higher score.

2 Fees worked represents the total hours lawyers worked multiplied by the rates negotiated with clients. It acts as a pre-realization revenue proxy: what firms earned on paper before the billing cycle determines how much of it they actually get paid.

3 Transactional practices are those that tend to thrive during periods of economic expansion: corporate general, M&A, banking & finance, real estate, and tax.

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

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 Engelland at Bryce.Engelland@thomsonreuters.com or visit the customer support [website](#).

