Law Firm Financial Index

Q2 2026 Executive Report | Issued 8.10.2026

A heavier load, yet a faster crossing

The waters haven't calmed down. Law firms are measuring up against the previous year, one of the strongest demand growths the industry has seen in years, and the cargo they're carrying is getting heavier by the quarter. And yet the firms have not slowed. In the second quarter of 2026, the Thomson Reuters Institute's *Law Firm Financial Index* (LFFI)[1] climbed to 60, up from a middling 55 in Q1 — a real pickup in speed despite increasingly difficult conditions.

Demand is the strongest force pushing firms forward: growth pushed up to 3.0% during the quarter, accelerating a run that, sustained through year-end, would make 2026 the strongest year for demand since 2021. That comparison comes with an asterisk, since 2021 was largely a bounce-back from a pandemic-starved 2020. Measured against two already powerful years rather than a recovery, this is as close to strong as legal demand gets.

Of course, not all of that demand is landing in the same place. Associates saw their work demand climb 4.3% for the quarter, and non-equity partners saw a steeper 6.0% rise — the two groups doing most of the actual rowing below deck.

Equity partner demand, by contrast, slipped 1.2% over the same period, and other lawyers pulled back a further 0.9%. That is not a sign equity partners are becoming unnecessary — someone still has to steer — but it does say something about where the additional workload is actually going. And that may be best understood through leverage.

Demand leverage[2] against equity partners is simply the hours worked

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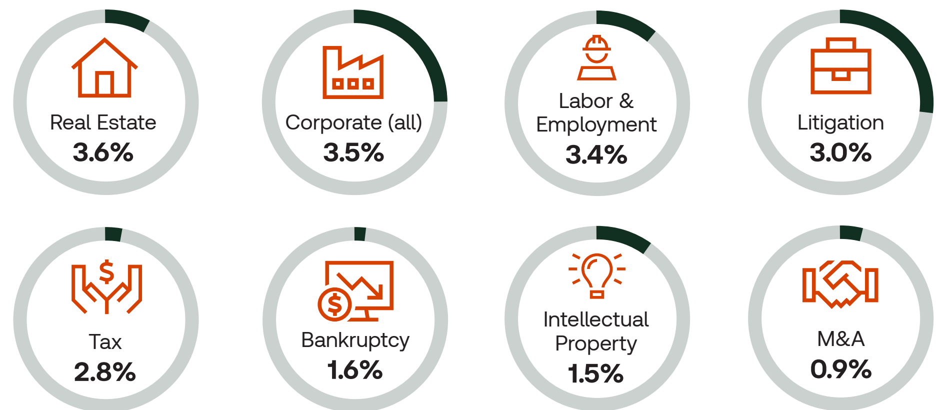
Practice demand growth

Y/Y Change | Q2 2026 vs. Q2 2025

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

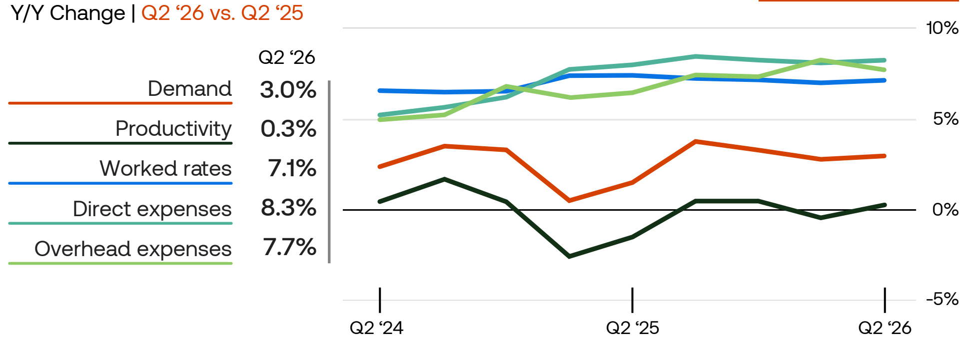


Source: Thomson Reuters 2026

LFFI key factors

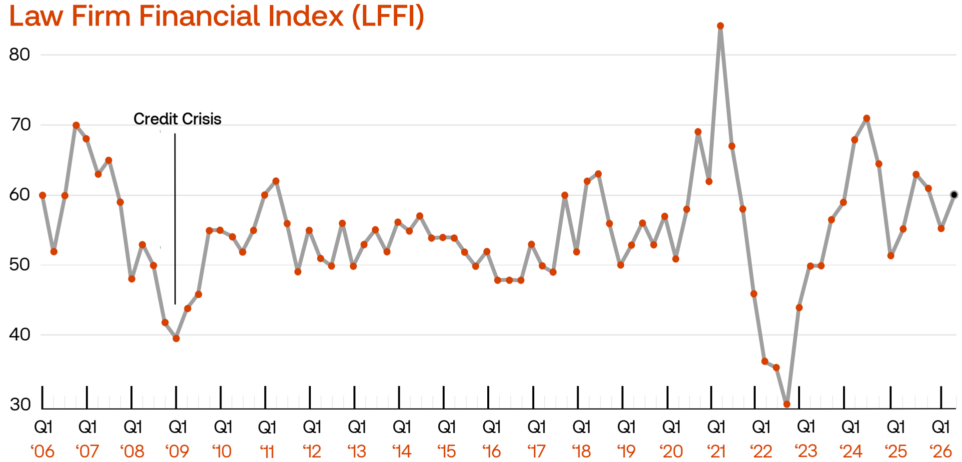
LFFI SCORE: 60

Y/Y Change | Q2 '26 vs. Q2 '25



Source: Thomson Reuters 2026

Law Firm Financial Index (LFFI)



Source: Thomson Reuters 2026

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by titles other than equity partners, divided by the hours equity partners work themselves — a rough measure of how much of the firm's work is being done in the engine room compared to the bridge. That ratio has climbed in a steady multi-year drift toward those associates and non-equity partners that are carrying more of the load.

The clearest evidence of that drift sits with non-equity partners specifically. For every hour an equity partner now works, non-equity partners work 0.91 of an hour — an all-time high and just the latest step in a long-running climb, with no sign of leveling off. That means the bridge still sets the course — strategy, client relationships, and other calls only a captain can make — but more of the ship's power is coming from the work of the officers and crew rather than from the equity partners' own hours.

Yet, it would be a mistake to read this arrangement as simply *leaner.* The profitability engine is in the leverage itself: associates and non-equity partners generate fees that far exceed their relative cost to the firm, especially when compared with equity partners. Non-equity partners are typically paid more than associates, and associates still bill more hours than any other group, so the economics are not just about shifting work to the lowest-cost title. Rather, they reflect a firm structure that's increasingly built around a smaller number of equity partners and a much larger, more heavily worked group underneath them — a structure designed to turn leverage into margin. The next question is, of course, how richly those hours are being priced.

Worked rates rose 7.1% in Q2, a pace that would have been almost unthinkable before the last few years and one of the clearest reasons the LFFI is climbing at all. Rate growth in the first half of 2026 looks less like a temporary spike and more like a continuation of the upward trend that began in 2021.

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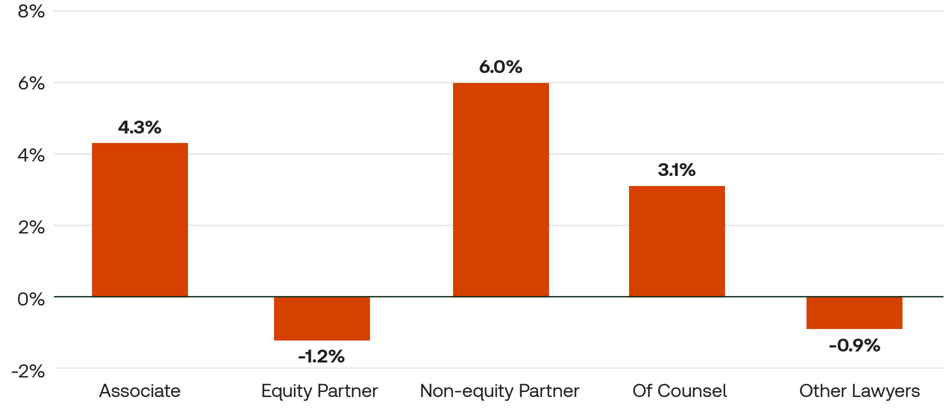
Demand growth by title in Q2 2026

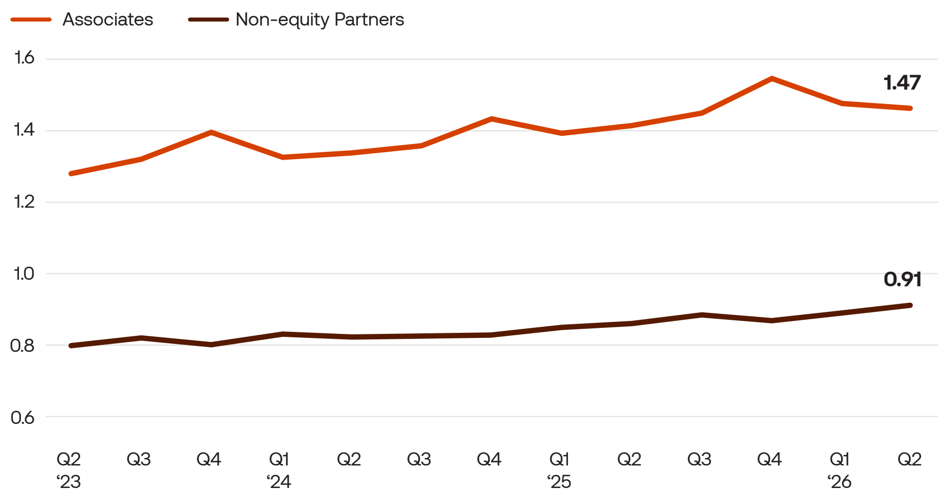
Y/Y Percent Change



Source: Thomson Reuters 2026

Demand leverage against Equity Partners

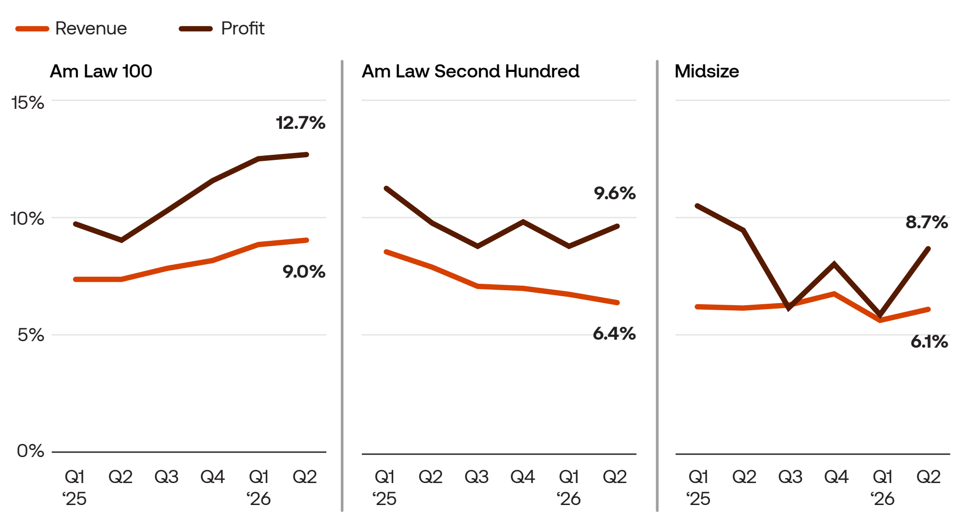
Relative Hours Worked (vs. Equity Partners)



Source: Thomson Reuters 2026

Per-FTE performance growth: Revenue vs. profit

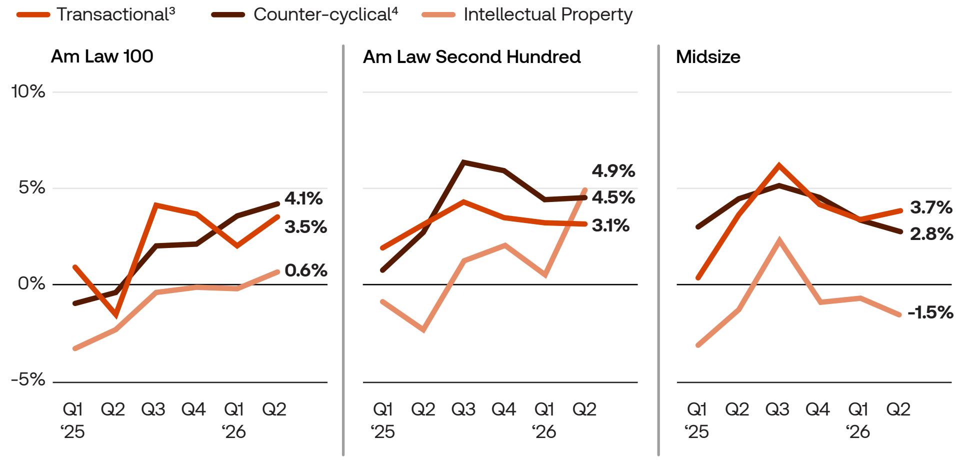
Y/Y Rolling 12-Month Change



Source: Thomson Reuters 2026

Macro-practice demand growth

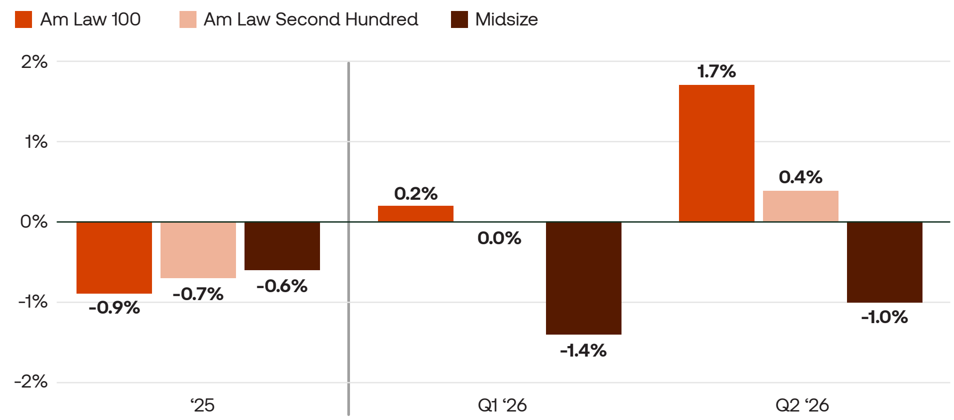
Y/Y Percent Change



Source: Thomson Reuters 2026

Productivity growth

Y/Y Percent Change



Source: Thomson Reuters 2026

However, firm's operations are heavier too: Direct expenses grew 8.3% and overhead 7.7% — moving in close formation, despite what a single quarter's comparison might suggest. Within that overhead line, technology and knowledge management spending remains one of the fastest-growing pieces, rising 11.6% overall and 8.7% on a per-lawyer basis in Q2, continuing a steady multi-year build in investment rather than a one-quarter spike.

Interestingly, there is real payoff showing up on the other side of the ledger. At Am Law 100 firms, revenue per full-time equivalent (FTE) grew 9.0%, and profit per FTE grew roughly 4 percentage points faster still. That kind of gap is standard operating leverage for the high-margin legal industry, which often offsets firms' accelerating costs. The Am Law Second Hundred saw a similar pattern; and at Midsize firms, revenue and profit per FTE had moved almost in lockstep in recent quarters, but Q2 showed profit pulling ahead of revenue again.

The segments diverge

Dive in deep by segment, however, and the picture splits further. Intellectual property practices are particularly troubling for some firms. At the Am Law Second Hundred, IP demand grew 4.9%, while at Midsize firms it swung the other way entirely, constricting by 1.5% — the only segment that is experiencing a decline there. The rest of each segment's practice mix held up in a much narrower band.

Productivity is similarly diverging too. The Am Law 100 and the Second Hundred have both been improving, while the Midsize segment has kept contracting. And the gap between the Am Law 100 and the Second Hundred, which barely registered as recently as Q1, has widened to 1.3 percentage points in Q2. Segment productivity has not been this spread since Q3 2022, when all three groups were contracting but not at the same speed, as Midsize firms held up the best. What makes the comparison especially notable is that the roles have now reversed, and it's the Am Law firms that are gaining ground while Midsize firms continue to falter.

Taken together, the law firm industry is carrying a heavier load than it has in years and still picking up speed — record demand, a widening rate advantage for some segments, and profit growing faster than revenue across the board. The open question isn't whether a single ship can move; it's whether all ships can keep pace with the current — or whether, like in times past, speed turns out to be a one-time gust of wind rather than a strong new bearing.

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 Demand leverage is the hours worked by Associates, Non-Equity Partners, Of Counsel, and Other Lawyers, divided by the hours worked by Equity Partners.

3 Transactional practices are those that tend to thrive during periods of economic expansion, such as 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 Tomas Arvizu at Tomas.Arvizu@thomsonreuters.com or visit the customer support website.

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