Australia State of the Legal Market 2026

Record growth and a split pack

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Foreword

Professor Michelle Foster – Dean, Melbourne Law School

I am delighted to introduce the 2026 edition of *Australia State of the Legal Market*.

FY 2026 marked one of the strongest periods for the Australian legal market in more than a decade, while also highlighting increasingly distinct market segments. Growth was clear across demand, fees worked, profits, and profit per equity partner, but the results also revealed a sharper divide between the Big 8, the redefined Large firms, and the newly identified Midsize firms.

Across the industry, average demand rose by 5.4%, fees worked grew by 10.2%, profit increased by 11.3% overall, and profit per equity partner grew by 74.2% since FY 2020, well ahead of the 51.2% expansion in the Australian economy in nominal terms.

Australian firms' worked rate growth slowed to 4.3%, leaving real rate growth of just 0.7% after inflation, down from 2.3% a year earlier. Transactional and counter-cyclical practices grew at close to the same pace, 6.0% and 7.4% respectively, although mergers and acquisitions continued to decline. Corporate general, workplace relations, disputes, and restructuring all showed strong momentum.

Firms slowed recruitment and marketing spend, while increasing investment in technology and knowledge management, which rose 9.2% and 5.4% per lawyer respectively, to better support their existing lawyers. This points to the growing adoption of legal-specific AI tools across the market.

The report signals that the Australian legal market is no longer best understood as a two-part structure, but as three distinct segments: Large firms, which led in demand growth and headcount expansion; the Big 8, which relied on rate strength, efficiency, and prestige to lead every measure of profit, lifting profit per equity partner by 19.7% against 7.2% for the Large firms; and Midsize firms, which grew after earlier contraction, made the market's most aggressive per-lawyer investment in technology and knowledge management, and improved profit per equity partner by 7.7%. The introduction of the Midsize segment follows a fuller field of 27 participating firms this year, which revealed that those previously grouped together as Large, were actually two separate fields.

With global instability rapidly shifting markets, some areas showed renewed strength, with insolvency & restructuring climbing to 6.6% after a flat year in FY 2025, along with dispute resolution, which grew to 6.8%. Notably, utilisation shifted to positive, rising 1.3% per lawyer, even as other major legal markets saw it contract.

The 2026 financial year reflects an unusual balance, in which global instability generated work for Australian firms without unsettling the domestic economy on which that work depends. As geopolitical pressures continue to impact economic conditions, it is more important than ever for firms to review core strategies and ensure objectives remain aligned with the changing landscape.

Professor Michelle Foster
Dean, Melbourne Law School

Executive summary

By almost every headline number, FY 2026 was one of the strongest years the Australian legal market has seen in a decade. It was also the most divided it has been during that same stretch, however, as it saw the grouping of law firms fall into different buckets. Holding both of those concepts at once is the whole task of this report — and it takes three cars, on a grid that held only two cars in last year's report, to do it.

Taking a look at the surface first, we see it holds up. Demand rose 5.4%, among its best showings on record, and fees worked charged ahead as well, with 10.2% growth, the second-fastest pace in at least 12 years. Profit per equity partner at the average Australian law firm has grown 74.2% since FY 2020, well ahead of the 51.2% expansion in Australia's nominal economy over the same period. Rate growth cooled but held well above its long-run trend, while utilisation turned positive even as other global markets watched it slide. Further, most firms spent the year reinvesting, pivoting from the hiring spree of FY 2025 toward equipping the lawyers they already employed. From a distance, the whole field looks like it ran one fast, healthy lap.

The trouble with distance, however, is that it smooths everything out. Up close, the same year that produced one of the best aggregate performances also produced the widest separation among firms in more than a decade. Two factors pulled it apart: First, the overall grid of firms grew as four more firms joined the Financial Insights program this year, bringing the total to 27 firms. This fuller field showed us what a small one blurs. As a result, we've added an additional law firm segment to our market analysis: the Midsize group. And second, in FY 2025 the market split hard: one set of firms ran well, while the rest slid.

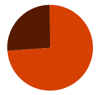
As FY 2026 got under way, the group we had previously categorised as the single Large law firm segment turned out to be two segments — the Large and the Midsize — each running their own race, and joining the Big 8 to make three segments that we track.

By fiscal year's end each segment led on the specific key measure that its strategy was built to win. The Big 8 firms led on profit in every form it takes, from total dollars to per lawyer to per partner. Large firms led on scale, growing demand more than four times as fast as any other segment. And Midsize firms led on the one thing a comeback is scored on, direction, ending the year growing again after a year in reverse.

Of course, the most critical number may be the one partners take home. The Large firms, for all their scale, grew profit per equity partner 7.2%; the Big 8 grew it 19.7%, because the Large firms' growth by addition adds partners too, and a bigger pie split across a wider table leaves each seat with less.

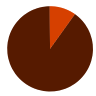
Key figures

74.2%



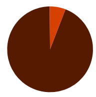
growth in profit per equity partner since FY 2020, against just 51.2% for the Australian economy in nominal terms. That makes nearly six straight years of the market pulling clear of the economy that feeds it.

10.2%



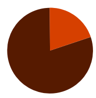
growth in fees worked, the second-fastest pace in at least 12 years.

5.4%

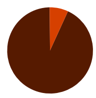


demand growth for the average law firm, among the strongest showings on record.

19.7%

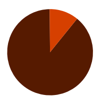


vs. 7.2%



PPEP growth at the Big 8 against the redefined Large segment.

11.3%



profit growth at the average Australian firm, capping one of its best years in a decade.

Source: Thomson Reuters 2026

That is the question FY 2026 hands forward: The Big 8's strategy built the bigger firm, the Large firms', the better deal for individual partners — but which one is winning depends on which side of the equity table you sit.

And Midsize firms made a quiet point of their own by growing their profit per equity partner by 7.7%, even nudging past the Large segment.

In aggregate, the Australian legal market has never looked better, of course. Underneath it, however, three now separate law firm segments are running the same race on the same track, but are speeding toward three different goals.

Methodology

Over the course of FY 2026, the financial metrics in this report were collected from Thomson Reuters Financial Insights data, which is based on the accounting systems from 27 participating law firms operating in Australia. These include some of the largest firms by the number of qualified fee-earners (QFEs) in the country.

Global metrics used for comparison are based on 260-plus law firms, primarily located in the United States and the United Kingdom, which also participate in the Financial Insights program. Some numbers may have changed since the issuance of the FY 2025 report due to sample shifts, revisions, or changes in methodology.

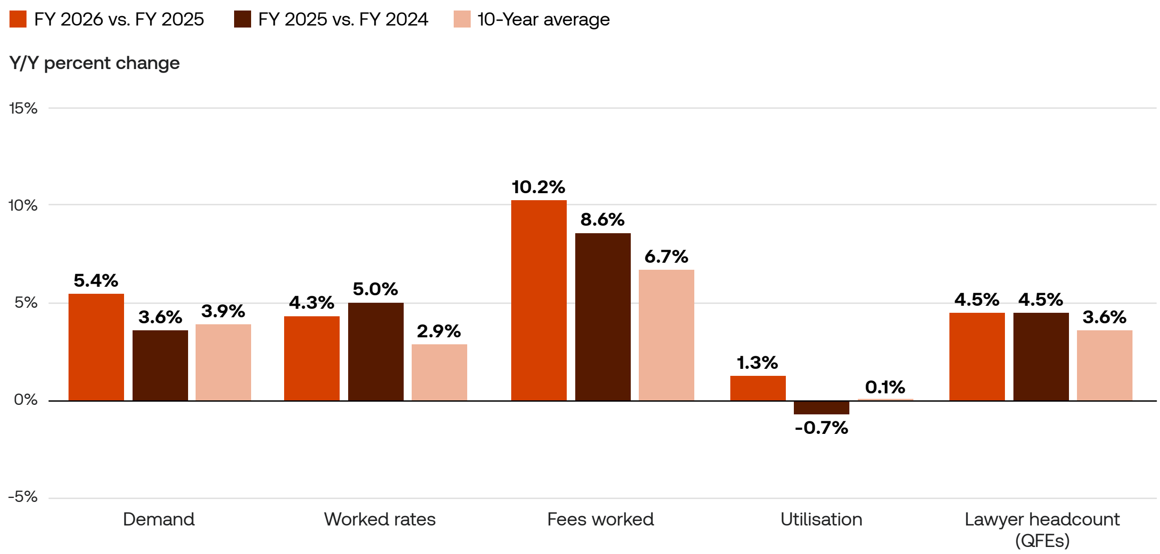
Market insights included in the report were based on interviews with 109 Australian-based legal buyers over the course of FY 2026.

The Australian legal market's strongest year

While FY 2026 was by no means a peaceful, stable year for the world, the operating environment was almost perfect for Australian law firms. Global instability was high enough to fuel additional work without damaging the underlying Australian economy in a way that would substantially hamper the demand for legal services.

FIGURE 1:

Key performance indicators



All fee earners; Billable time type; AU Offices.

Source: Thomson Reuters 2026

Every gauge was green but one

Demand for the average Australian law firm rose by 5.4% compared to FY 2025, a solid performance that ranks in the top five for demand growth and a notable improvement from the previous year.

Notably, this surge in demand coincided with slower growth in law firm rates. The worked rate rose 4.3%, its slowest pace since FY 2021 and down from the 5.0% growth that firms held for the past two years. It still cleared inflation, but the margin narrowed sharply, especially after events in the Middle East added additional pressure. Firms ended FY 2026 with real rate growth[1] of seven-tenths of a percentage point, down from 2.3% a year earlier, while being squeezed from both ends as decelerating rate growth met inflation that would not settle.

Still, there's always something going wrong somewhere, and as warning lights go, this is far from catastrophic. Rate growth is a lever that firms get a chance to employ every year, so the gap that opened in FY 2026 can be closed in FY 2027, provided firms hold the line and client pushback stays contained.

Overall, FY 2026's conditions remained strong enough that Australian firms felt comfortable making long-term investments, in particular in their talent. The average firm grew headcount by 4.5%, a pace of growth which would be considered extraordinarily high anywhere else, but for Australia, that continues a trend that's been going strong since FY 2018.

1 Real worked rate growth reflects the change in the agreed, negotiated, or worked rate, net of national inflation. For Australia, we use: trimmed mean CPI.

Utilisation, the industry's historic measure of productivity that tracks the change in hours worked per lawyer, moved broadly positive in FY 2026, in contrast to last year and superseding the country's 10-year rolling average that, uniquely, stayed even as other global legal markets saw serious contractions in utilisation.

With the vast majority of gauges in the green, Australian law firms powered to a strong overall revenue performance in FY 2026, with fees-worked, our pre-realisation revenue proxy, charging up 10.2% over the previous year's levels, the second fastest pace of increase for at least the last 12 years.

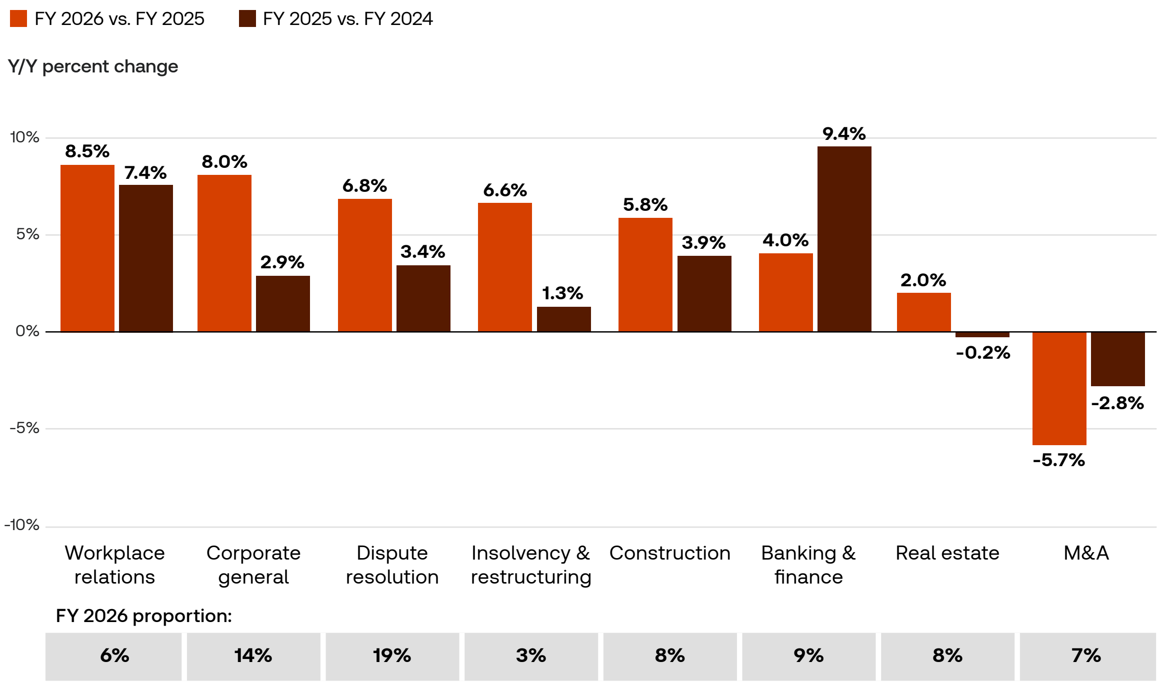
Where the work came from

For one of the first times in recent memory, transactional[2] and counter-cyclical[3] practices grew at close to the same pace, 6.0% and 7.4% respectively, a gap far narrower than the one that usually separates them.

Transactional practices rebounded, but not in a single, synchronised wave. Corporate general was the clearest standout, jumping to 8.0% growth in FY 2026, from 2.9% in FY 2025, to become the strongest-growing transactional practice of the year. That means the foundation of transactional work is firming up, and it's the broad, bread-and-butter corporate practice that's leading the way. Banking & finance tells the opposite story, as it cooled to 4.0% growth, after being last fiscal year's standout. While a step down from a hot year is not alarming on its own, especially given that the practice is still growing, what makes it worth watching is that financing work often leads M&A in a recovery cycle. So FY 2025's banking & finance surge should, in theory, be feeding an M&A pickup right about now.

FIGURE 2:

Practice demand growth



All fee earners; billable time type; AU Offices. *Source: Thomson Reuters 2026*

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 defence, workplace relations, and insolvency & restructuring.

Instead, M&A remained the primary laggard, and its decline deepened rather than moderating, sliding to a -5.7% contraction, almost double that of last fiscal year. That is the tell. If financing leads dealmaking, the front edge of that pattern has not arrived, and that means the most cycle-sensitive segment of the market has not re-engaged, and in fact, has pulled back even harder.

Real estate made a quieter version of recovery. Demand edged back into positive territory at 2.0%, after slipping slightly negative in FY 2025 to -0.2%, representing a modest thaw rather than a genuine rebound. Financing costs and project delays still weighed on activity, but the direction has turned. Construction held onto solid growth and then some, accelerating to 5.8% from 3.9% last year. Once projects are underway, legal demand tends to be durable.

On the counter-cyclical side, the story is strength, not normalisation. These practices did not settle back after a stabilising in FY 2025. They broadened and built. Insolvency & restructuring climbed to 6.6% after being nearly flat last year, a meaningful step up, although not to levels that would signal national economic distress. Dispute resolution nearly doubled, to 6.8%, remaining one of the largest and steadiest contributors to demand while plainly gaining pace rather than losing it.

Taken together, FY 2026 reflects a market in transition, although maybe not the one FY 2025 would have predicted.

Workplace relations is the exception that may prove the rule. The practice delivered strong growth across both years, building 8.5% growth in FY 2026 on an already solid FY 2025. As a counter-cyclical practice that feeds off instability but not necessarily calamity, it may be little surprise that workplace relations continued its strong growth.

Taken together, FY 2026 reflects a market in transition, although maybe not the one FY 2025 would have predicted. The split conditions of last year, when a solid first half deteriorated into a far tougher second, gave way to a broadly positive and stable FY 2026, with both macro-groups growing at the same healthy clip. The nuance, of course, is where that growth sits. Counter-cyclical demand strengthened across the board, while transactional recovery arrived uneven and incomplete — strong in corporate general, but still absent in M&A.

With transactional demand recovering to meet counter-cyclical growth, the acute need to lean on disputes and restructuring to offset a transactional drought has relaxed — but M&A's continued slide is a reminder that the recovery is patchy.

The right people, the right tools

Australian firms closed the fiscal year with their smallest overall expense growth since FY 2022: a 7.2% increase in 12 months, bringing cumulative expense growth to 43.8% over the last four years, alongside a steady headcount growth that has remained between 4% and 5% for the last four years running. Direct[4] and indirect[5] expenses stayed together after adjusting for headcount growth, with direct expenses per lawyer leading with 4.7% growth on a rolling 12-month basis and indirect expenses trailing about a full percentage point behind.

The story within indirect expenses is a deliberate reallocation. Technology spending led the way, rising 9.2% per qualified fee-earner (QFE) — more than 2 percentage points above its FY 2025 pace — as firms continued equipping their people with the latest tools. Knowledge management (KM) moved in the same direction, climbing 5.4% per QFE, up from 3.0% the year before. The sheer volume of spending puts it into perspective, with the 10 heaviest technology & KM spenders investing close to $30 million[6] each.

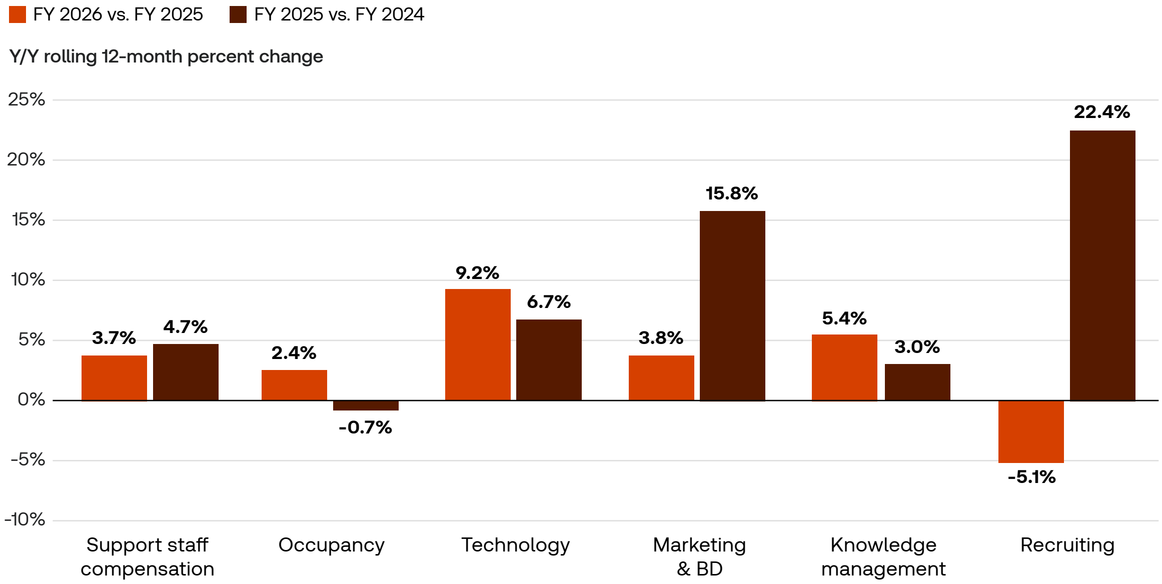
4 Direct expenses are those expenses directly related to QFE compensation and benefits.

5 Indirect expenses are those expenses not directly attributed to QFEs, such as support staff compensation, technology, rent, and office expenses.

6 All dollar figures are in Australian dollars unless otherwise noted.

FIGURE 3:

Indirect expense growth per QFE detail



FY 2026 proportion:

Support staff compensation	Occupancy	Technology	Marketing & BD	Knowledge management	Recruiting
37%	18%	13%	4%	3%	2%

Source: Thomson Reuters 2026

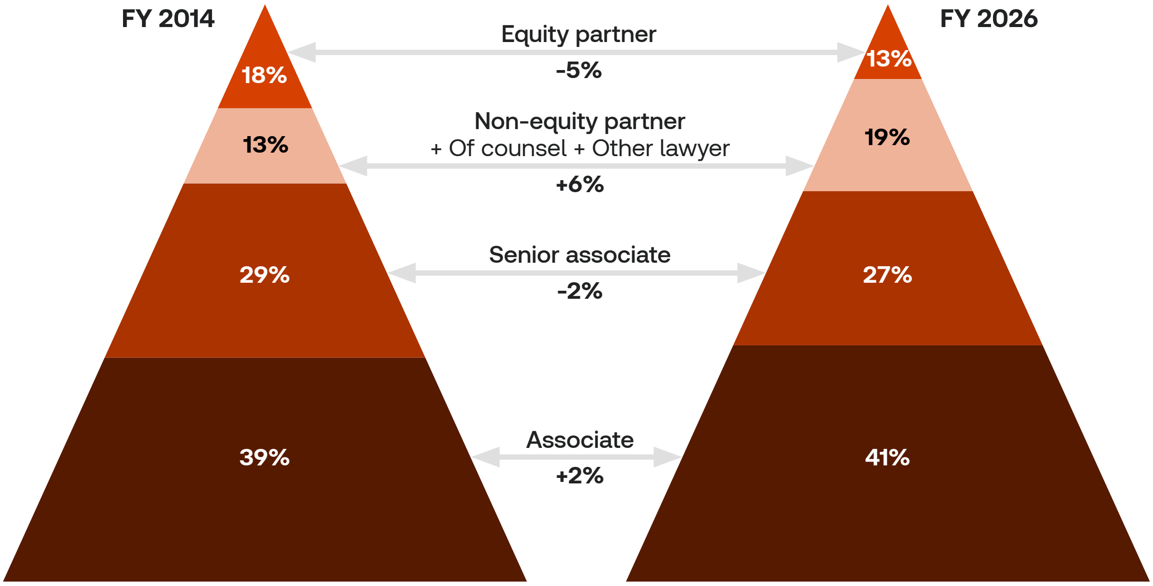
However, when some expenses accelerate, others give way, and that is exactly what happened: Recruiting and marketing & business development both fell from double-digit growth in FY 2025 to single-digit growth — or outright decline — in FY 2026.

The contrast is stark against where those categories had been. Recruiting had grown 22.4% in FY 2025 and marketing & business development at 15.8%, and their sharp pullback in FY 2026 isn't a retreat so much as recalibration. Australian law firms had made a deliberate bet on talent acquisition, and once that hiring wave crested, they redirected the money.

That redirection is the year's expense story in one move. Having spent FY 2025 buying people, firms spent FY 2026 equipping them to an even greater extent. The same instinct that drove the headcount surge is now making that headcount more productive.

Support staff compensation rose by 3.7% per lawyer for the average firm, slightly outpaced by the overall rate of increase for lawyers themselves, with the average firm's direct expenses per lawyer increasing by 4.7% as well. This comparison, however, is admittedly unfair. The average firm significantly increased its headcount in FY 2026, but that growth was uneven because firms grew their associate and senior associate ranks faster than other titles.

FIGURE 4:
Population pyramid

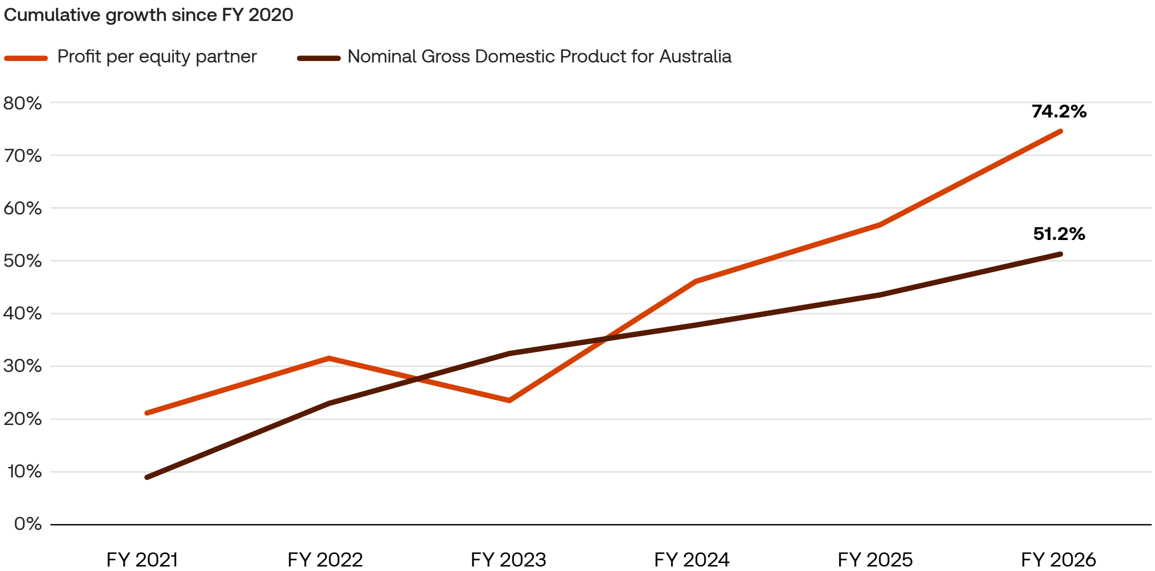


Source: Thomson Reuters 2026

Since 2014, senior associates had steadily lost ground, sliding from 29% of the average firm's lawyers to 25% by FY 2024. However, FY 2026 reversed that decade-long drift, lifting senior associates back to 27% of the lawyer population at the average firm.

Pulling all the numbers together, the average Australian law firm grew overall profits by 11.3%, a strong finish in which it's difficult to find disappointment. Yet, since FY 2020, profit per equity partner across the market has climbed 74.2%, against the 51.2% growth in the Australian economy in nominal terms. Indeed, Australian firms didn't just run one good lap — they spent the last six years pulling clear of the economy that feeds them.

FIGURE 5:
Profit per equity partner vs. the Australian economy



Sources: Thomson Reuters and the International Monetary Fund via FRED® 2026

The three-car race

Prior to FY 2026, the Australian legal market had most often been read as two halves. At the top sat the Big 8, the non-affiliated group of the eight largest firms in the country; and beneath them sat everyone else of scale — a single group we had simply called the Large segment. Through FY 2025 that framework worked, describing a market in which the classical powers of the profession traded ground with a field of ambitious challengers.

In FY 2026 that categorisation stopped fitting, and the catalyst was almost certainly the year before it.

As we said, we ended up splitting the former Large group into two: Large and Midsize. And together with the Big 8, that gave us three segments, and FY 2026 caught each running a different strategy through the same race.

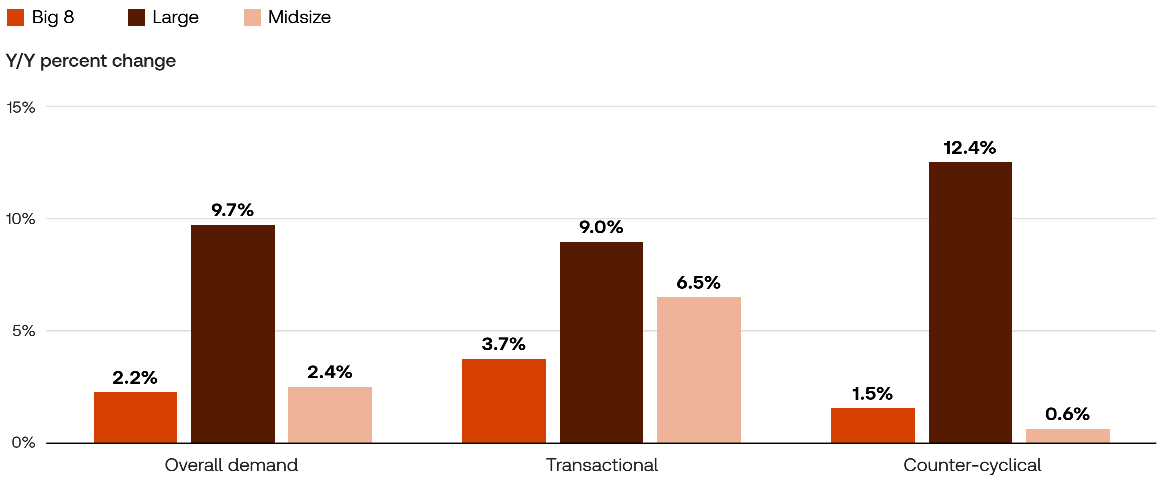
The Large firms

The leaner Large firm segment didn't just lead in demand growth for the year; it was all but unopposed. The average Large firm grew overall demand by 9.7% compared to FY 2025 levels, against 2.4% or less for every other segment. Large firms led distinctly in the premium-priced transactional practices, but they were also the only segment to find serious growth in the counter-cyclical area, in which they saw demand grow by an astonishing 12.4% in a single year.

If these firms were to hold that pace, they would double their counter-cyclical book by 2032. Compare that to the industry's pre-pandemic norm, in which the average law firm grew overall demand just fast enough to reach the same doubling over a partner's entire 30-year career. This intense scaling is the heart of their strategy, and in FY 2026 it was incredibly successful, especially as business conditions stabilised.

FIGURE 6:

Macro-practice breakdown by segment



All fee earners; Billable time type; AU Offices. *Source: Thomson Reuters 2026*

The drawback of this strategy, of course, is the same one a race car faces when it chases horsepower above all else: *weight*. To grow demand by such prodigious levels, Large firms had to bring on enough lawyers to match it — 7.9% more QFEs over the course of the year. And headcount is only the most visible of the loads the segment took on. Large firms kept investing in tools even as they hired, but here the strategy's own math worked against them. Spread across a rising headcount, their tech and KM spend grew just 3.9% per QFE, the smallest of the three segments. Their strategy seemed to be 'grow everything at once', but they learned that even a rising tech bill gets thin once you divide it across all the new bodies you brought on.

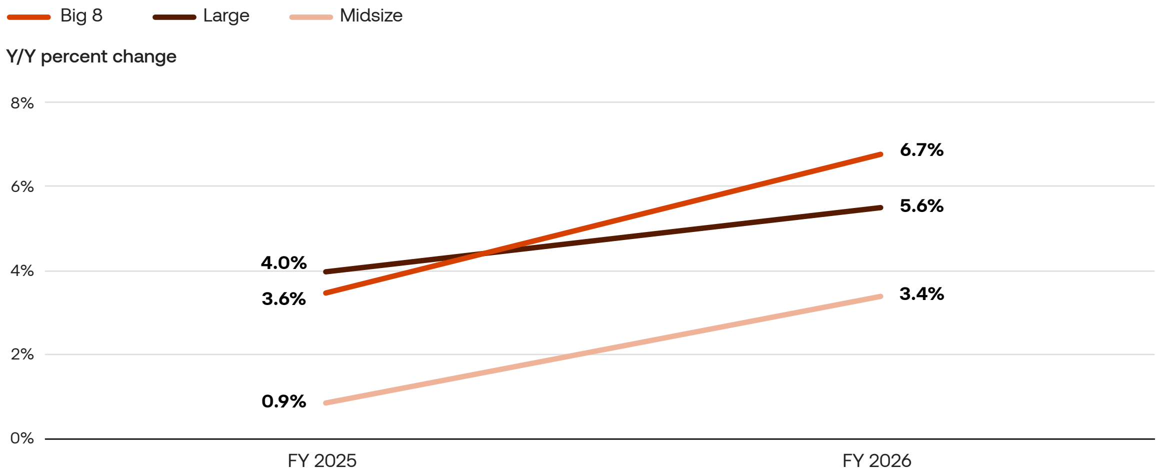
While Large firms did manage to squeeze more hours out of each QFE, that scale came at a cost: Large firms led both direct and indirect expenses by considerable margins, growing total expenses by 11.6% — roughly six percentage points above the rest of the market.

The Big 8

In direct contrast were the Big 8 firms, which tried to gain speed precisely at the points where Large firms were carrying weight. Where the Large firms' strategy wins by adding mass, the Big 8 strategy wins by balance, extracting the most from reputation and rates.

FIGURE 7:

Fees worked per lawyer



All fee earners; Billable time type; AU Offices.

Source: Thomson Reuters 2026

The clearest evidence of the Big 8's success is in rates and fees worked per lawyer. While the Large firms were busy stacking demand, the Big 8 grew their worked rates by 6.2%, comfortably ahead of the rest of the market, converting its prestige and entrenched client relationships directly into higher prices. That choice shows up where it matters most — fees worked per lawyer, the truest measure of how much a firm gains from each QFE it employs. Here the Big 8 led the market, posting 6.7% growth in fees worked per lawyer, turning a relatively modest 2.2% demand growth into outsized returns per QFE.

The reward for that discipline is substantial. By declining to chase demand, the Big 8 kept headcount growth to just 1.6% and held the line on both direct and indirect expenses. This discipline spared the segment from carrying the expense burden that weighed on the profitability of Large firms at fiscal year's end.

However, as the rapidly growing Large firms push into the upper echelons of the legal industry, the Big 8's reign as the undisputed largest firms in the Australian market may be challenged as never before.

Midsize firms

Where Large firms and the Big 8 firms spent FY 2026 executing their chosen strategies, the Midsize firms spent the first half of it recovering from the previous year's stalled performance. Smaller than the Large firm leaders and without the rate power and entrenched relationships of Big 8 firms, Midsize firms were the ones who slid. Not helping matters was that they also were carrying the expense burden of a growth push that came due at the worst possible moment.

Late in FY 2025, while the headline market numbers still glowed, the Midsize segment was quietly contracting. Demand softened, profitability thinned, and recently hired lawyers landed on firms that no longer had the work to justify them. If the old *Large* category hid anything, it was that a group of firms was going backward inside a market that looked, from a distance, like it was going forward.

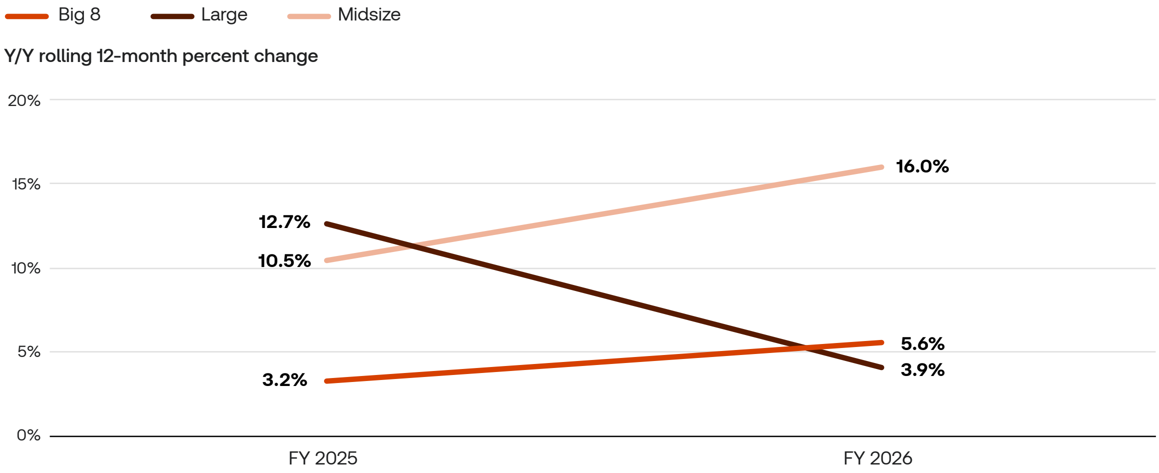
However, a race from behind isn't measured by where the car was, but rather by how fast it's closing in on the pack. And on that measure, Midsize firms zoomed over the course in FY 2026.

As business conditions steadied, the Midsize segment that had been sliding now began, month over month, to find its grip. Demand stopped contracting and resumed growth, reaching 2.4% by year's end. The expense burden that had buried the Midsize segment began to ease as the frantic hiring of prior years slowed. And the lawyers already on the books began to work in earnest, lifting hours worked per lawyer and pulling profitability up off the floor. None of this was dramatic. Indeed, Midsize firms still ended FY 2026 with the most ground to make up; however, their direction had reversed. Most interesting was what the Midsize segment chose *not* to cut.

Climbing out of contraction meant tightening nearly everything, and Midsize firms did: Headcount growth slowed to a crawl, expense lines came down, and the frantic spending of prior years was brought to heel across category after category. Yet there was one conspicuous exception. Investment in technology and KM — the tools that multiply what each lawyer can do — did not face the axe. Indeed, Midsize firms didn't just protect this category but doubled down on it, lifting tech and KM spend per lawyer by 16.0% in FY 2026 even as they contracted the rest of the budget. This is not a gentle nod toward modernisation, rather it's the single most aggressive per lawyer tech investment of any segment in the market, made by the one segment that could least afford it.

FIGURE 8:

Tech + KM spending per QFE



Expense growth is on a rolling 12-month basis.

Source: Thomson Reuters 2026

That internal contrast is the tell. For Large and Big 8 firms, tech grew in absolute terms alongside everything else, then thinned out as it was spread across the lawyers those firms were busy adding. Midsize firms did the opposite. They grew tech per head while shrinking nearly everything else. And without a fast-rising headcount to dilute it, that spend landed as a concentrated, deliberate bet on the lawyers they already had.

Profitability and the pack

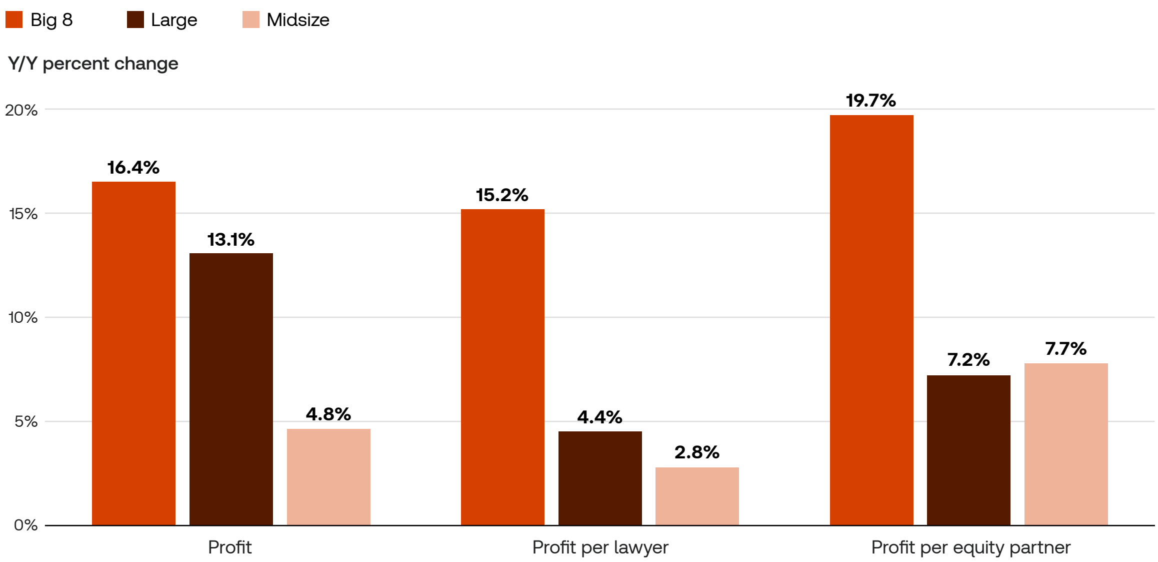
In the end, every law firm segment is judged on profitability, and FY 2026 was, for almost everyone, a profitable year. How each segment got there, however, is the clearest proof yet that firms were racing for different things all along, because the segment that grew the least won the most.

The Big 8 topped every profit measure there is, growing total profit 16.4%, and they did it while adding almost no one. Then they pulled further ahead on profit per lawyer, because the Big 8 strategy extracts more from each head.

That is the uncomfortable lesson sitting in the middle of the standings. Large firms grew demand more than four times as fast as anyone, added the most lawyers and the most book, and still could not convert that scale into a profit lead. Addition built the bigger firm, but it did not build the richer one.

FIGURE 9:

Profit by segment



Source: Thomson Reuters 2026

There's a third critical metric, though, and it's the one partners actually take home, profit per equity partner (PPEP). Here the gap doesn't narrow; it widens. Large firms grew PPEP by just 7.2%, while the Big 8 grew it by better than 2.5-times as fast. That is the trade-off at the heart of FY 2026 for the Australian legal market: Large firms built the bigger institution and the bigger absolute fortune, but the Big 8 built the better deal for each individual partner. And then there is the third car on the track, Midsize firms.

On the raw standings, Midsize still finished last, trailing in profit per lawyer growth; but finishing last is not the story here, because a year ago this segment was going backward. Turning better conditions into 2.8% more value per head may be a small number, but it's pointing the right way. And on the figure partners actually feel, Midsize did even better: PPEP grew 7.7%, a hair ahead of the Large segment and a world away from the contraction Midsize firms experienced a year ago. A segment that had given back every gain it made since early FY 2024 spent this past year earning its way back to level with firms that were in the middle of a massive expansion. If the segments show how Australian law firms ran their most recent race, however, client intent shows what they're running toward.

What client demand signals are showing

The net spend anticipation (NSA) among Australian legal buyers remains firmly positive.

FIGURE 10:

Net spend anticipation

> +20% 0% to +19% < 0%

Net spend anticipation by country/region: Jan 25-Dec 25 (Percent of buyers increasing spend minus those decreasing spend in each work type)	Global overall	Australia	US	Mainland Europe	Japan	China	South Korea
Regulatory	+23	+30	+21	+32	+31	+5	+76
Labour & employment	+15	+22	+17	+5	+25	+0	+24
Corporate	+14	-3	+17	+5	+11	+1	+35
Disputes	+12	+8	+14	+13	+25	+3	+35
Mergers & acquisitions	+6	-12	+5	+8	+26	-2	-6
Banking & finance	+4	-10	+5	+3	-1	+3	+12
Insurance	+4	+2	+7	-0	+1	+0	+6
Intellectual property	+4	+3	+6	-6	+17	-2	+6

Number of responses: (Jan25-Dec25): Global (2369); Australia (106); US (1097); M.Europe (226); Japan (72); China (111); South Korea (17).

Source: Thomson Reuters 2026

The forward-looking NSA signals a split along the same seam as the year itself. Regulatory and labour & employment lead on intent, and there the actuals agree: Both practices were durable demand stories in FY 2026, which makes them the safest ground for the Large and Midsize firms to place their bets going forward.

The transactional signals cut the other way. Banking & finance and M&A both sit in negative NSA territory for Australian clients and below their moderately positive global peers. This is perhaps a result of the intense growth banking & finance has experienced over the last few years and the cooling that's occurred.

While client intent confirms M&A's slide and suggests banking & finance is set to continue cooling as well, the recommendation isn't to abandon those practices but instead to pace investment against those pipelines actually growing.

What FY 2027 may bring

It is tempting to read FY 2026 as a simple result: We had three cars, each pursuing three different strategies, with the two front-runners each leading the fight they chose and the third clawing back into contention.

A more practical result, however, is that the end of a race really wasn't the end of anything — it was a single lap. Each segment did not so much win this year as commit to a strategy. But where could those strategies lead in FY 2027?

- **Large firms gain if the conditions hold** — As the lawyers Large firms hired in FY 2026 fill with work, the technology pays back, and the segment's scale gains as they close in on the Big 8 in terms of absolute size.

  Yet, Large firms' short term edge actually came from a counter-cyclical surge of 12.4%, growth no other segment came close to matching. Now, counter-cyclical work sits exactly where client demand intent points.

  However, what could make Large firms flounder is not demand, it's weight. An expense base fully four percentage points above the all-market average does not shrink on command, and a 7.2% PPEP already shows the dilution that growth-on-growth brings. Addition can be wonderful, but the hangover can be brutal.

- **The Big 8 faces the opposite exposure** — The Big 8's lean, high-rate model is built to absorb a shock, but it rests on premium transactional work, precisely the deal flow that Australian clients now signal may be slowing. If that work softens, then those firms that looked safest become the ones caught out.
- **Then there is the Midsize segment, the car that's still climbing** — The Midsize segment bet everything on technical leverage, lifting technology and KM spend even while cutting almost everything else. If that bet matures into real productivity, the gap that Midsize firms see now could close faster than the standings suggest.

The danger, of course, is that there is no cushion behind it. Midsize firms are only just back at the track, with no balance sheet to absorb a second shock.

Looking ahead to the next race

For the Australian legal market, FY 2026 was one lap of a longer race, and the cars have now locked into the strategies they will hold through the corners ahead. Every one of these strategies is reasonable, and not one of them is safe. FY 2027 is the next sharp corner, and how firms manage it may define not just the year, but the decade to come.

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