

New Report Reveals Major Law Firms Experience Profit Decline and Productivity Slump in Q4 2022



Law firm productivity in the fourth quarter of 2022 decreased by 7.2% compared to the same period in 2021, a decline described as equal to the depths of the pandemic lockdown, according to a report released on Tuesday. The Thomson Reuters Law Firm Financial Index report indicated that the drop was due to declining demand and continued hiring. The financial difficulties resulted in a decline of 4.5% in fourth-quarter profits per lawyer compared to the same period in 2021. The index is a composite score of firm profitability based on financial data from major firms in the United States and key international markets.

Other year-over-year financial findings for the fourth quarter showed that demand decreased by 3.9%, rates increased by 4.4%, direct expenses increased by 8.4%, and overhead expenses increased by 9.3%. The report summary noted that the final quarter of 2021 was one of the busiest for firms, with a glut of transactional demand lifting the large law firm industry into record profitability. However, the current valley sent the index to its new all-time low score of 30 for the fourth quarter of 2022.

According to the report's summary, continued hiring throughout 2022 brought in a new class of associates when many law firms were already having difficulties keeping their current lawyers busy. The financial troubles have nearly eaten through the record profit gains of 2021, combined with challenges to revenues, productivity, and expenses.

Recovery from the top of the market, slowing expense growth, and another series of rate increases may be enough to pull the index out of its tailspin and send it back into its usual territory.

REFERENCES:

Lawyer profits at major firms slide with big drop in productivity in fourth quarter of 2022, new report says

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