

# PEER MONITOR INDEX

LEGAL EXECUTIVE INSTITUTE

Q2 2020 EXECUTIVE REPORT

ISSUED 8.10.2020

## PMI DOWN AT MIDYEAR

*Uncertainty as 2020 Progresses*

The first quarter of financial year 2020 ended with looming uncertainty. The COVID-19 pandemic was still in its infancy in the United States, and the extent of the economic fallout that would result was yet unclear. Most stay-at-home orders, court closures, and broader economic shutdowns occurred during the second quarter, and consequently the market endured the largest quarterly drop in demand since 2009.

As a result, the Thomson Reuters Peer Monitor Economic Index (PMI)<sup>1</sup> declined by six points to 51.

On average, demand decreased by 5.9%, relative to the second quarter of the previous year. Likewise, and as a result of significant growth in lawyer headcount over the preceding 12 months, productivity across all fee earners also declined by 7.2%. Interestingly, however, the contractions did not affect all lawyer titles equally. In fact, partners have begun completing a higher proportion of work by volume. The causation for this is two-fold. First, partners with a more "eat-what-you-kill" mindset are focused on staying the course to achieve their own billable hour goals. Second, law firm clients have an increased need for advisory services that cannot be completed by less experienced lawyers. The end result - worked rate growth at an all-time high. The average worked rate charged across the market was 5.2% higher than at the same point last year, a full percentage point higher than growth levels recorded in the first quarter.

## PRACTICE DEMAND GROWTH

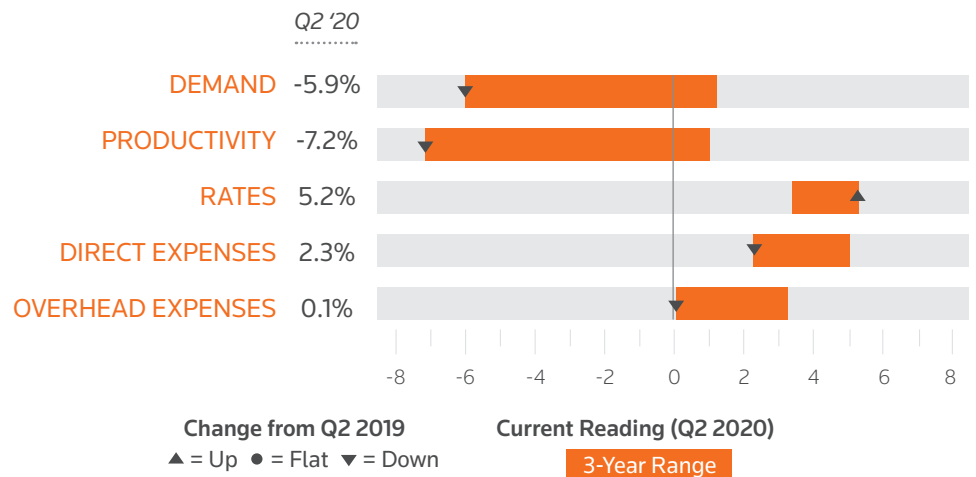
Y/Y Change | Q2 '20 v Q2 '19



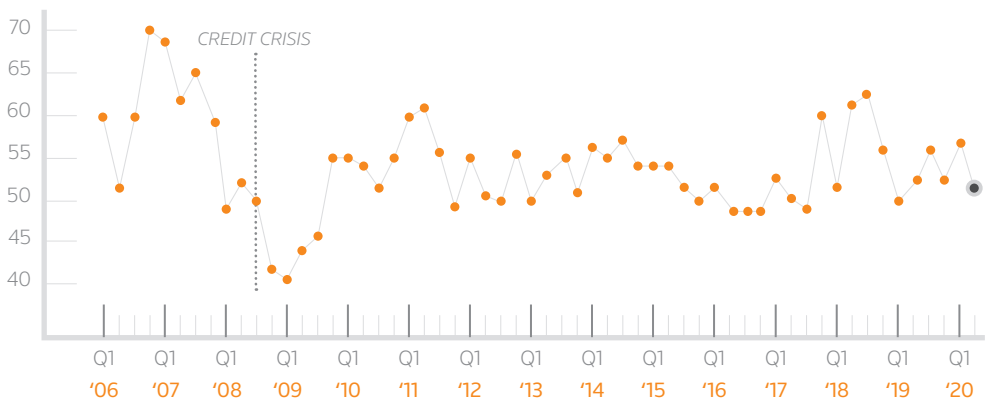
## KEY FACTORS Q2 2020 ANALYSIS

Year-Over-Year | Q2 '20 v Q2 '19

PMI SCORE: 51 ↓ 6



## PEER MONITOR ECONOMIC INDEX (PMI)



\*Circular Band surrounding practice is equal to Proportion of Hours Worked in 2019.

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

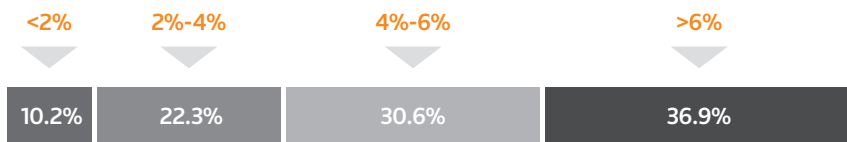
In an effort to maintain bottom line growth despite the demand downturn, firm leaders have rapidly cut expenditure. While furloughs and layoffs have not yet become ubiquitous amongst the lawyer ranks, they are more widespread amongst support staff. Many other overhead expense areas have had significant decreases in spend, such as marketing and business development which has decreased by an average of nearly 20% on a rolling 12-month basis. Correspondingly, direct expense growth has decreased to 2.3%, while overhead expenses are essentially flat when compared with last year.

What is to come in the third quarter and beyond is mainly contingent on how the population at large reacts to the ongoing pandemic. It's hard to imagine a significant bounce back in the legal industry while cases continue to rise at an accelerating pace. Buckle up, as it seems the legal industry may be in for a bumpy ride for the remainder of the year.

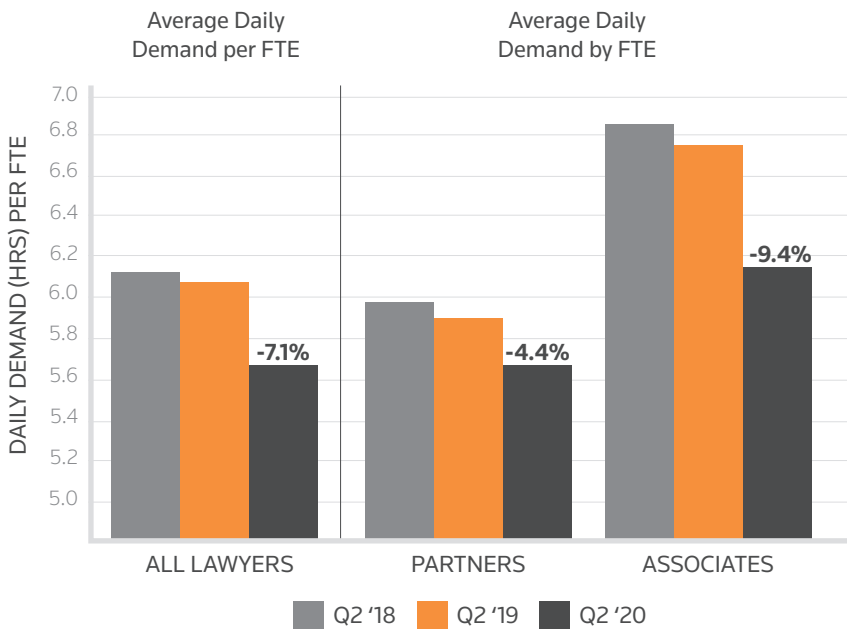
For more information on the PMI, and how the Peer Monitor platform can provide you more granular, timely, and narrowly tailored competitive intelligence, please contact Brent Turner at **763 326 6625** or **brent.turner@thomsonreuters.com**, or visit the Peer Monitor website **here**.

## WORKED RATE GROWTH

Proportion of Firms | Q2 '20 v Q2 '19



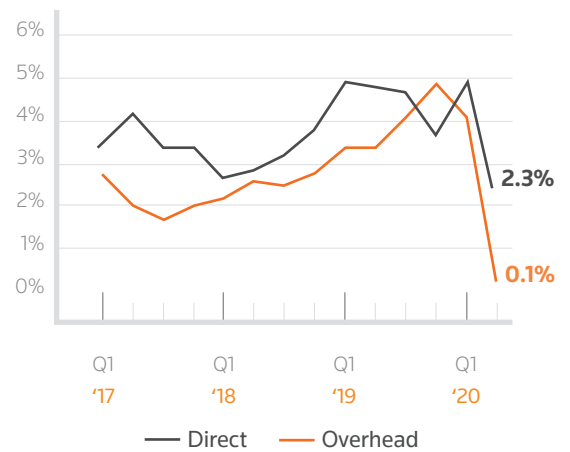
## AVERAGE DAILY DEMAND PER FTE



\*Percent represents change from Q2 '19 to Q2 '20  
Lawyers  
Billable time type; non-contingent matters

## EXPENSE GROWTH

Rolling 12-Month Y/Y Change



## OVERHEAD HIGHLIGHTS

Rolling 12-Month Y/Y Change | Q2 '20



\*Circular Band surrounding expense is equal to Proportion of Overhead Spend in 2019.