# PEER MONITOR INDEX

LEGAL EXECUTIVE INSTITUTE

Q1 2020 EXECUTIVE REPORT
ISSUED 5.11.2020

## PMI BOUNCES BACK IN FIRST QUARTER

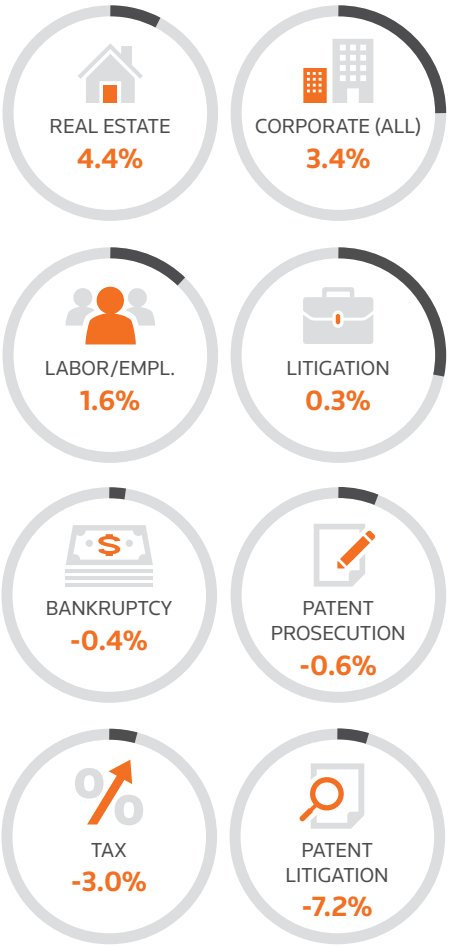
*Firms Facing Uncertainty Beyond March*

At a glance, the first quarter of financial year 2020 seemed similar to full year performance of 2019, but just a bit better. Demand grew by an average of 2.0% across the market, albeit aided by an additional working day in the quarter, and outpaced last year's mark of 1.0%. Worked rates climbed to new heights for the second consecutive quarter. While lawyer growth continued to increase pace, newfound demand offset this to a large extent which allowed productivity to climb closer to flat. Expenses remained high, which indicated that perhaps firms were still generally comfortable with current market conditions. This may be unsurprising to one with no knowledge of current events.

As a result, the Thomson Reuters Peer Monitor Economic Index (PMI) rose by four points to 57.

## PRACTICE DEMAND GROWTH

Y/Y Change | Q1 '20 v Q1 '19

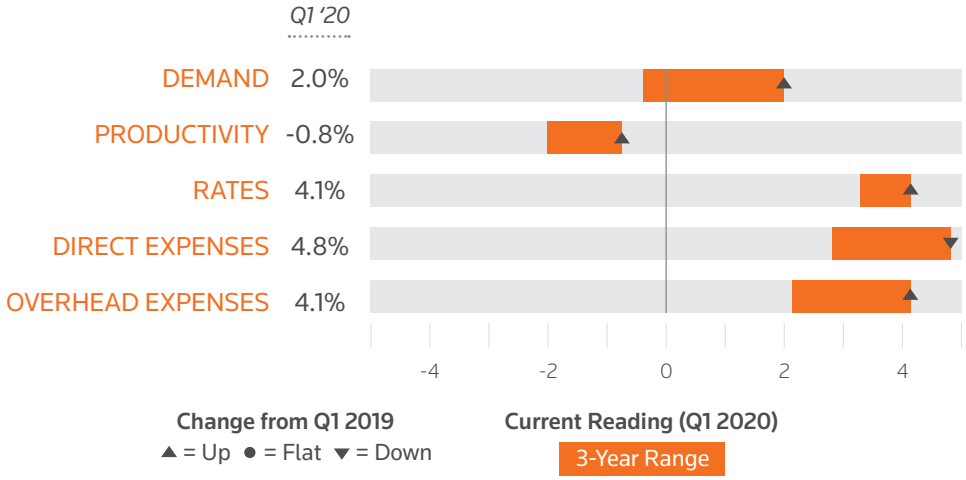



**Circular Band surrounding practice is equal to Proportion of Hours Worked in 2019.*

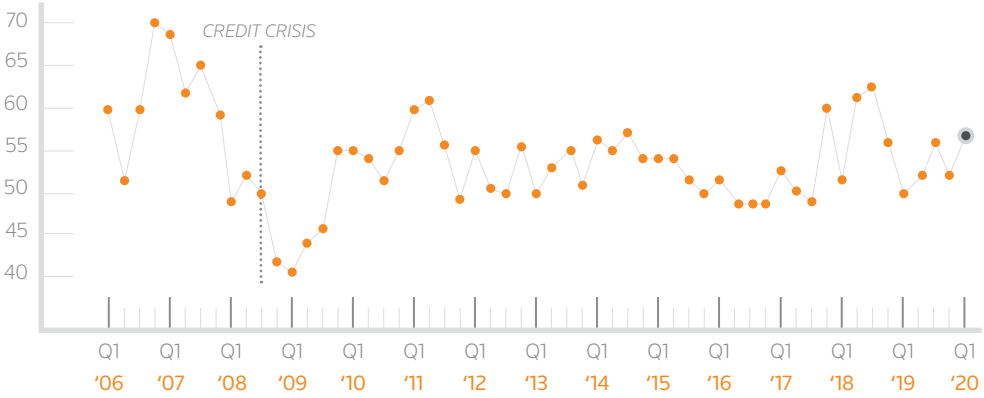
## KEY FACTORS Q1 2020 ANALYSIS

Year-Over-Year | Q1 '20 v Q1 '19

**PMI SCORE: 57** ⬆ 4




## PEER MONITOR ECONOMIC INDEX (PMI)




**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.*

However, when one is aware (as all of us are) of the current changes in business climate as a result of COVID-19, the results appear surprising. How is it that firms, faced with such uncertainty, have increased their overhead spend by more than 4.0%, and direct expenditure on lawyer compensation by a still greater 4.8%? Or how could a practice such as real estate be our market leader with growth of more than 4.0%, while practices more indicative of an economic slowdown such as bankruptcy contract?

The answer is that law firm performance is a lagging indicator by nature, and the bulk of social and economic impact began halfway through the month of March. Demand contraction in the quarter was heavily muted by an additional working day relative to the year prior. Many of these changes must be acknowledged as longer tailed. For instance, is it possible that clients will acquiesce to 4.1% increases to their worked rates while facing tough business continuity decisions such as lay-offs and budget cuts? Most would agree the longer this pandemic continues, the less likely rate growth and realization figures will remain unaffected.

If the shutdown due to the pandemic does not end soon, it seems unimaginable to believe that we will again see around half of the firms tracked by Peer Monitor with worked rate growth of 4.0% or better. It would appear unlikely that recruiting expenses could continue to rise by double digits, and support staff compensation increase by 4.5% in a time when it is possible that hiring grinds to a halt. Changes very well may be on the horizon, but you would not yet know it based solely on the first quarter results.

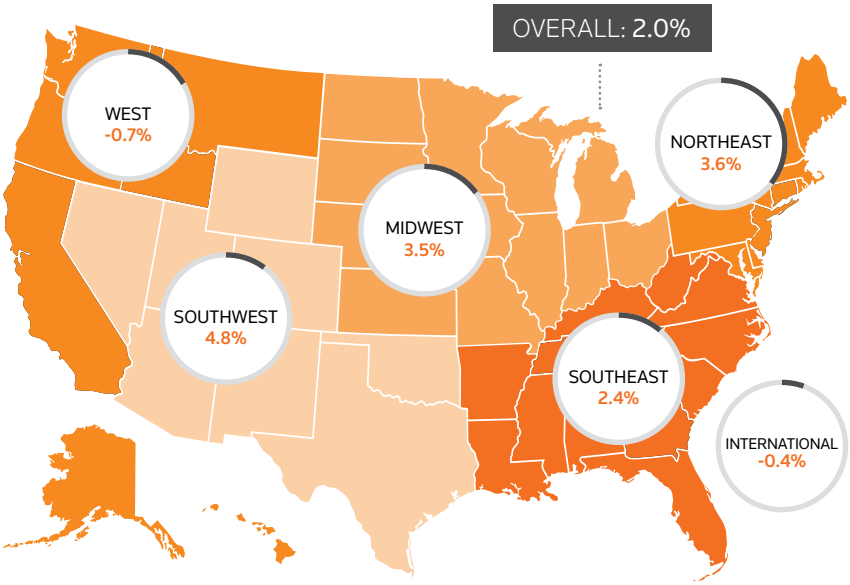
For more information on the PMI, and how the Peer Monitor platform can provide you more granular, timely, and narrowly tailored competitive intelligence, please contact Brent Turner at **651 848 8712** or **brent.turner@thomsonreuters.com**, or visit the Peer Monitor website **here**.

## WORKED RATE GROWTH

Proportion of Firms | Q1 '20 v Q1 '19


## REGIONAL DEMAND GROWTH COMPARISON

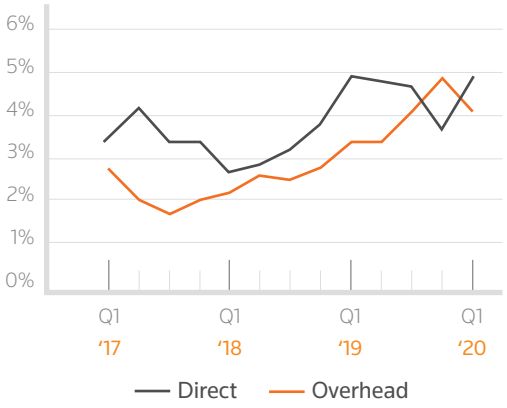
Y/Y Change | Q1 '20 v Q1 '19




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

## EXPENSE GROWTH

Rolling 12-Month Y/Y Change




## OVERHEAD HIGHLIGHTS

Rolling 12-Month Y/Y Change | Q1 '20


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

THOMSON REUTERS®