Study shows dip in demand for legal services nationwide

Thomson Reuters has released its quarterly Peer Monitor Index study which tracks key factors related to the legal industry, including demand for services, productivity, billable rates, and expenses across law firms. Overall, law firms are seeing a slight drop-off in demand for their services after several years of very slight growth. Industry-wide, there is a 0.3% drop-off in demand for legal services, after being up in both 2015 and 2014. Notably, billable rates that lawyers charge their clients is up 3.1% for the third quarter of 2016 alone, while expenses are up more than 4%.

Changes in Demand Varies Greatly by Practice Area

The slight drop-off in demand for legal services in not uniform across practice areas, with several practice areas even showing growth for the year. The relative change in demand in the third quarter of 2016 in various practice areas noted by the report include:

- Patent Prosecution: +1.0%
- Corporate/Transactional: +0.5%
- Labor/Employment: -1.6%
- Real Estate: -1.7%
- Bankruptcy: -1.9%
- Litigation: -1.9%
- Tax: -2.0%
- Patent Litigation: -2.6%

Midsize Firms Enjoying Greater Growth than Larger Counterparts

The report points out that the changes in demand are also not uniform across size of firms, with the largest firms (the AmLaw 100) suffering the biggest drops, while the “AmLaw Second Hundred Firms” doing somewhat better. But besting both of those firms are Midsized firms, which actually enjoyed a growth in demand for legal services over the course of the year, including a 1.2% uptick in demand for litigation services. The report suggests this may be due to cost-conscious clients seeking more cost-effective legal representation.

Collection Efforts Remains a Huge Source of Unrealized Gains

While the report focuses on demand, billing rates, and expenses that firms are facing, one notable statistic reported is that, nationwide, firms have a “collected realization” rate on bills of 82.9%. This statistic is actually the highest rate of the year, but the clear implication is that a full 17.1% of bills – or, in other words, more than one-sixth of the work that firms are billing for – is not being collected. This suggests that, while billing rates may go up slightly, expenses might rise, and demand for services will fluctuate, the ability of firms to actually collect what they bill for may well be one of the most significant areas in which profits could rise for firms of all sizes.

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