

Legal services in an uncertain market

Economic overview

Introduction



- ▶ Expert evidence and commercial advisory
- ▶ “What if” quantification
- ▶ Applied econometrics and simulation
- ▶ Decision intelligence

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Objective: food for thought

Over the next 30 minutes:

- ▶ Does the macroeconomy matter for the legal sector as a whole?
 - ▶ Putting economic forecasts into context
 - ▶ Latest short- and medium-term macroeconomic forecasts and risk factors
 - ▶ Some big-picture topics giving rise to risks and opportunities
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Does the wider economy matter?

Does the economy matter for selling legal services?

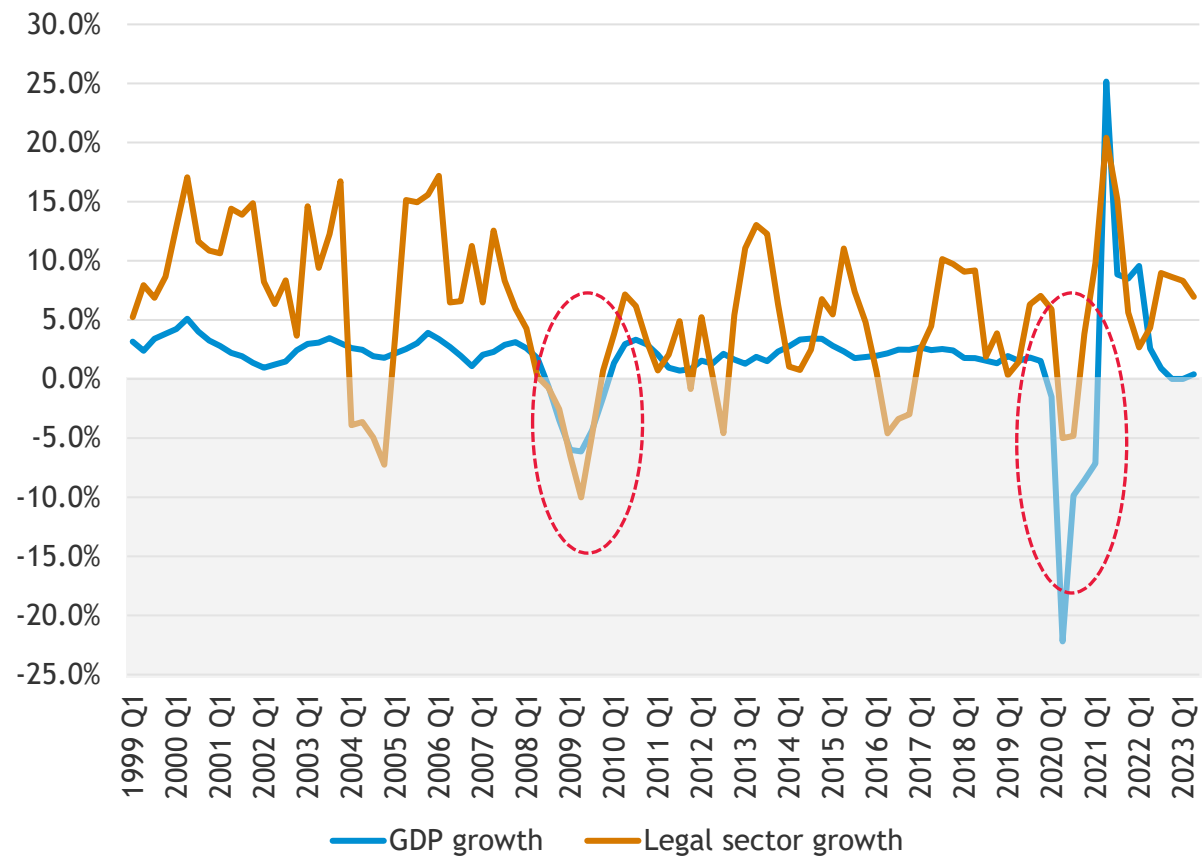


Legal services output falls in recessions

The general economy is not a good predictor of aggregate sector output, but the sector has not been immune to past recessions

- ▶ Sector output more volatile than GDP
- ▶ Output contracted during both recessions in data (available from 1998)
- ▶ Contractions in 2004 - 2005, 2012, and 2016 while the general economy was growing

GDP growth and Legal sector growth (annual Q-on-Q %)

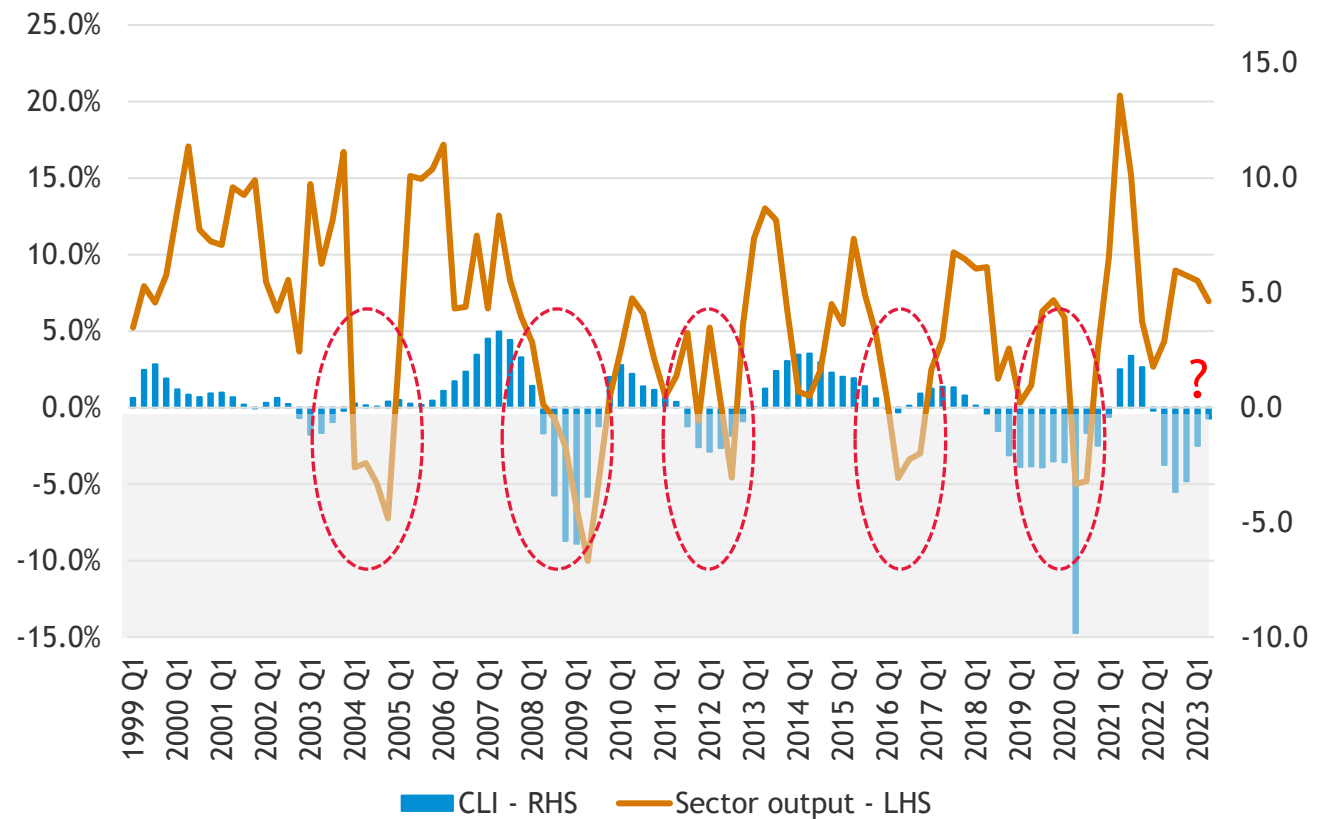


OECD's CLI series for the UK has been a better indicator of sector output

The latest figures point to potential trouble ahead

- ▶ CLI looks 6-9 months forward for turning points in business cycles
- ▶ Apart from late 2000s, negative sentiment on CLI has been associated with falls in sector output, with a lag
- ▶ 5 - 10% falls in sector output in periods of low sentiment
- ▶ Currently defying gravity?
- ▶ Does it feel like good times?

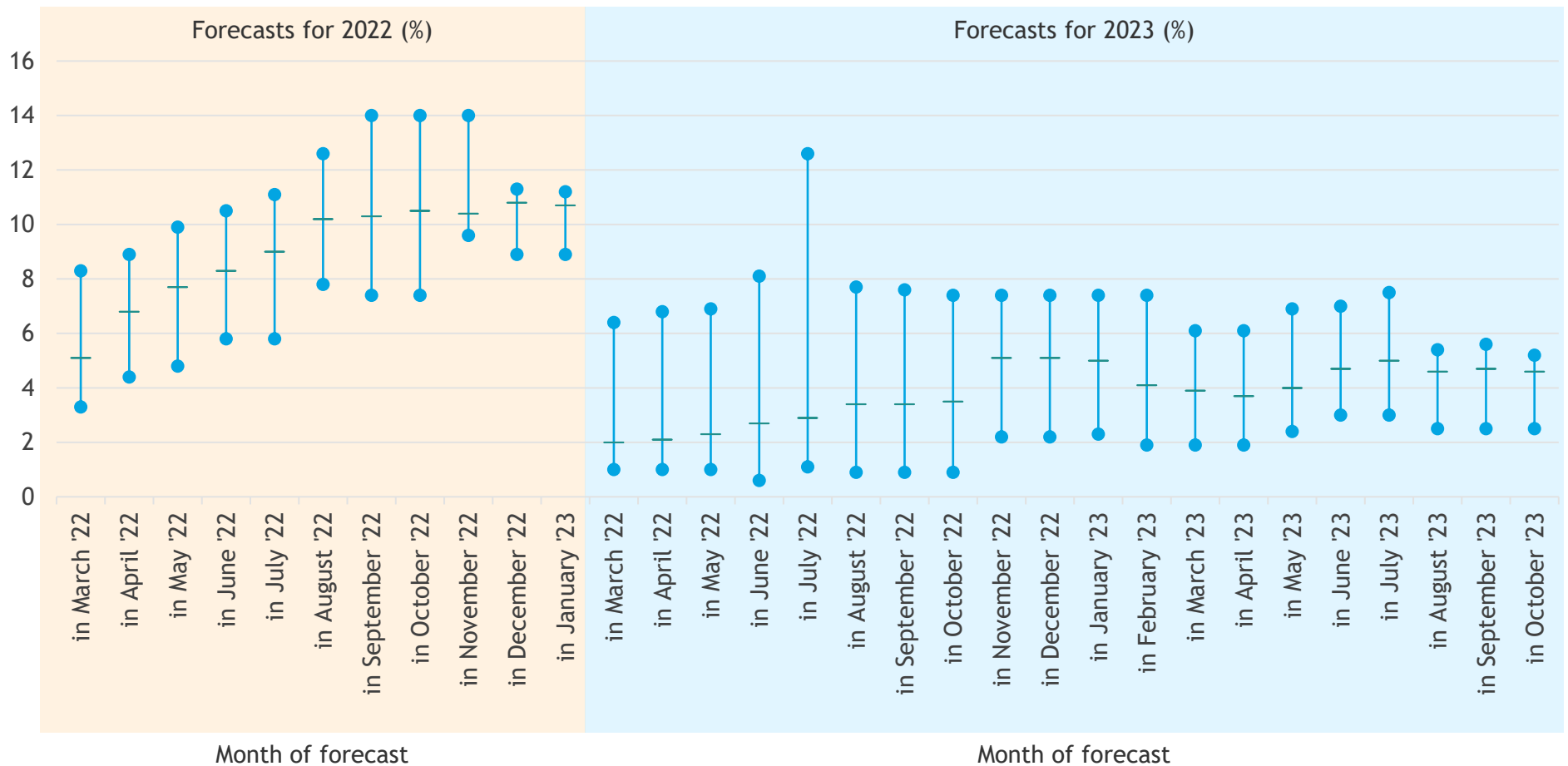
CLI and Legal sector output growth (annual Q-on-Q %)



Context for economic forecasts

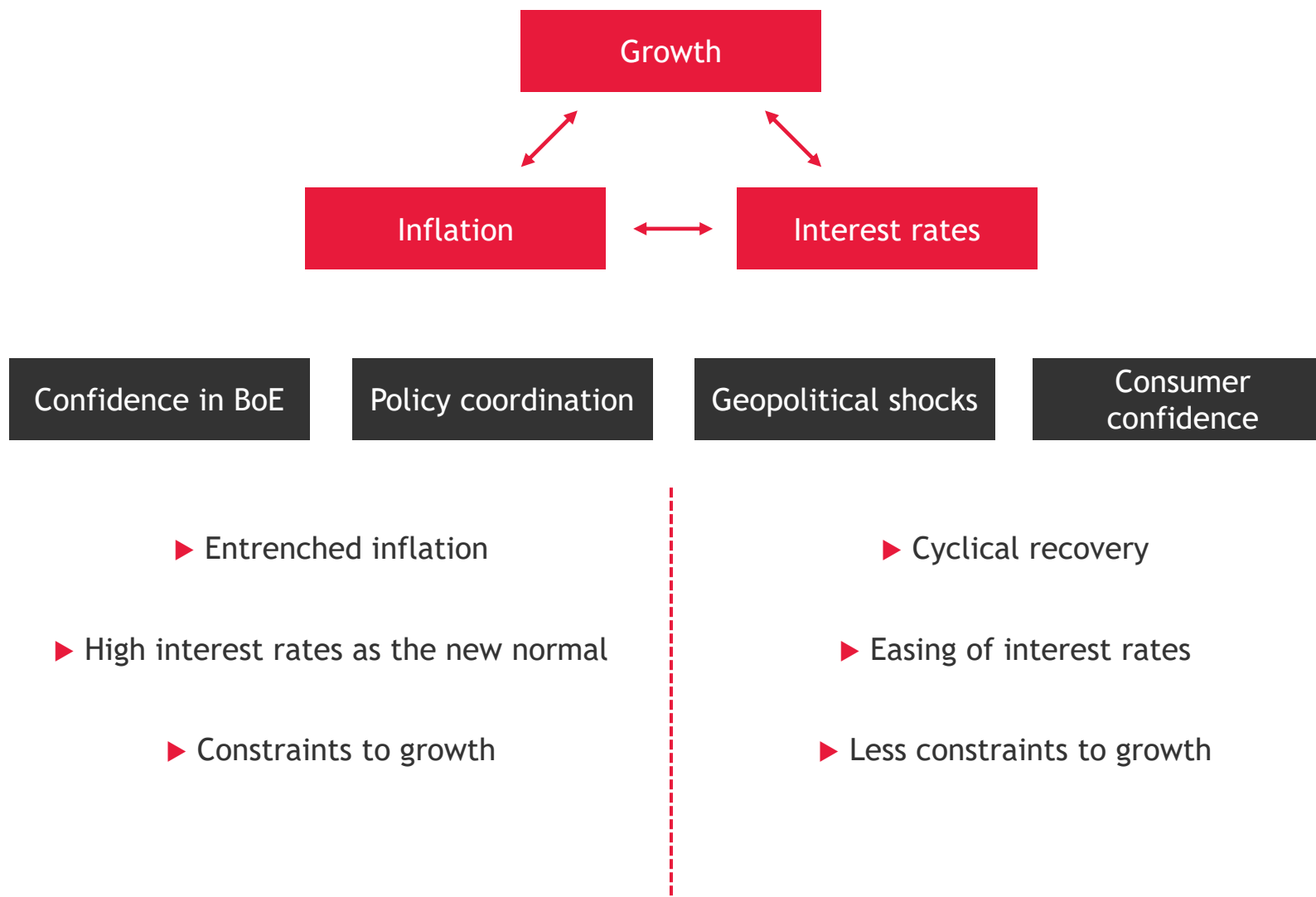
Uncertainty has dominated forecasts recently

CPI inflation forecasts for 2022 and 2023, by month of forecast



1. Forecasts for the UK economy: a comparison of independent forecasts, HM Treasury, March 22 - October 23

Coherent scenarios



Current outlook for the UK economy is pessimistic

▶ Interest rates to stay high “as long as they need to”

▶ Low or no GDP growth

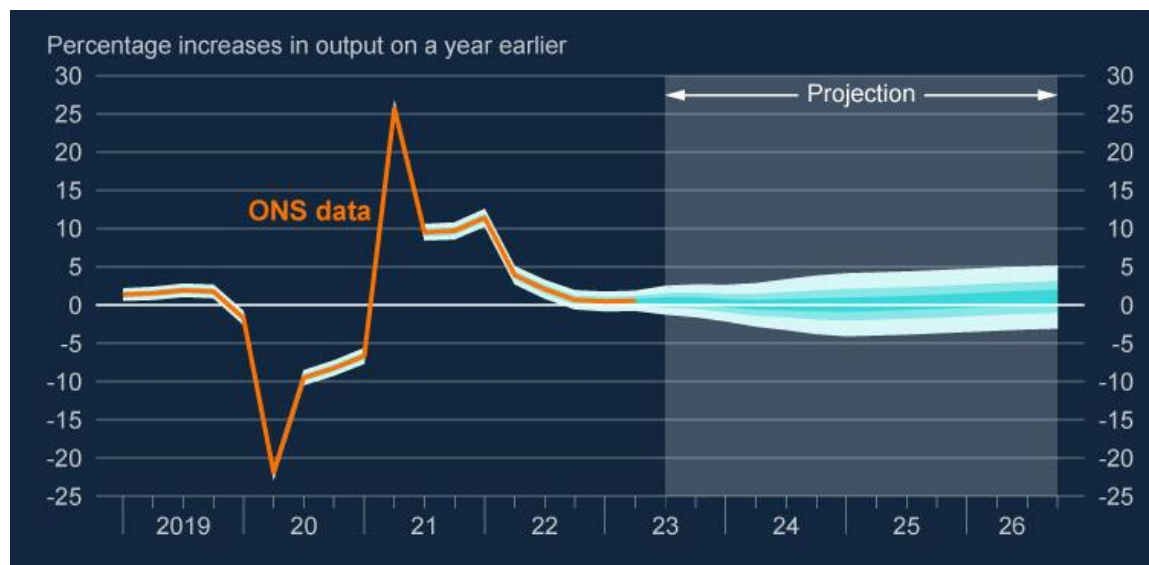
▶ Inflation to target in 2025

▶ Risks on the downside

BoE November 2023 baseline projections

	2023	2024	2025	2026
GDP growth (%)	0.6 (0.9)	0 (0.1)	0.4 (0.5)	1.1
CPI inflation (%)	4.6 (4.9)	3.4 (2.8)	2.2 (1.9)	1.9
Bank Rate (%)	5.3 (5.8)	5.1 (5.9)	4.5 (5)	4.2

BoE November 2023 GDP growth trajectory - base uncertainty



Big(ger) issues

Climate change and energy transition

- ▶ ESG and transparency
- ▶ Exposure to climate crisis
- ▶ Uncertain government investment / regulation

Geopolitics

- ▶ Escalating conflicts and prevalence of sanctions
- ▶ Regionalisation and industrial policy
- ▶ Conflicting rules and regulations

Shifting demographics

- ▶ Societal impacts from larger wealth divides
- ▶ Shifts in consumption patterns
- ▶ Labour and migration

Technological disruption

- ▶ Productivity boosts from AI?
 - ▶ Increased cyber risks
 - ▶ Increased regulatory risks
 - ▶ Continuing uncertainty on application of AI
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So, what to make of it all?



How might these things impact us?



Where are our sources of opportunity?

How would you spot opportunities emerging in the specific area?

What actions would you take to respond to them?

How quickly could your team respond opportunities or challenges?

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