

Diesel Fuel Price Outlook for 2025 - April Edition

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Introduction¹

This is part of a series of newsletters discussing the outlook for diesel fuel over the next 12 months. Diesel costs are a major expense item for nearly every farm so estimating diesel prices over the next year could help farmers with planning and fuel purchase decisions. These articles will briefly analyze the current fuel environment and then discuss factors that could drive prices upward or downward over the next year.

Current prices

Current diesel and gasoline prices are shown in Figure 1. Both diesel and gasoline prices are about \$0.40 lower than they were last year. Diesel prices declined for most of 2024 before rising in December and January. Prices have remained flat since. Gasoline is following a similar price pattern. Diesel is on track to exhibit its typical seasonality with higher than normal prices during the spring and fall. If Diesel prices follow the pattern from 2024, diesel could be lower in the summer compared to the spring. Certainly the lower oil prices compared to last year are a positive sign for upcoming fuel prices.

Gasoline is also exhibiting its typically seasonality with higher than normal prices during the summer. Typically January and February have the lowest gas prices of the year. Oil prices are now in the \$60 range which may mitigate the typical summer price premium.

Current supply

Diesel stocks remain below the typical range from the previous five-year years (Figure 3) Stocks of diesel fuel have improved slightly since 2022 and 2023 but are still at the bottom range of normal supplies. Refinery capacity in the U.S. remains below the levels before Covid so improving the supply of diesel is likely to be a long-term process. It may take several more years before diesel stocks are at a typical supply level.

Diesel price premium

Figures 4 and 5 show the diesel price premium relative to gasoline. The diesel premium reached a record level at the end of 2022. However, it dropped every week until July of 2023. In July of 2023, the price premium was actually below historical levels. However, the price premium rose from July 2023 to November 2023. In 2024, the diesel price premium followed almost the exact same pattern as 2023. The diesel price premium reached its low point in June and then rose most of the rest of the year.

The price premium in 2025 could likely follow a similar pattern to 2024. However lower oil prices could change this price premium. The current price premium of \$0.40 is more than it was last year. Thus, the price premium may not decrease much more over the summer.

Discussion

There are several factors driving diesel prices. The first is the world oil price. Despite conflicts in Russia/Ukraine and the middle East and tariffs which Canada and other countries, oil prices have declined to the \$60 range. The price of oil at the start of the Russian/Ukraine war reached \$130 but is now at levels below the start of the war. While traders may have over-reacted to the war in the beginning, they may now be underestimating the supply disruption potential.

The second is the continual capacity constraints facing the U.S. refinery system. Capacity has declined since Covid and may never be at those levels again. Current capacity is often utilized at nearly 95% of capacity. Thus, any hiccup in the refinery system can lead to price spikes. While a move to more EV vehicles may help lower the price of gasoline, diesel demand is likely to remain more constant.

The third factor is the effect of increased tariffs. Oil is a fungible commodity so an increase in Canadian oil could lead to most domestic production as well as increases in imports from other countries. The U.S. does not import great quantities of oil anymore. The main benefit of importing Canadian oil is the U.S. refinery system can better handle the heavy weight oils that Canada produces better than other countries. By importing the heavier Canadian oils, the U.S. was free to export domestic lighter weight oil. Oil tariffs from Canada will likely change the mix of oil used in the U.S. but price effects are likely to be minimal. The current oil price seems to reflect that outlook.

Outlook

Figure 5 shows the projected diesel prices for the next 12 months. This model is based on the oil futures price and the expectation of the diesel to gasoline premium. The futures market is indicating steady to slowly declining oil prices in the \$60 range and the diesel premium is expected to follow the trend from 2023 and 2024 where the premium declined until the summer and then starting increasing again. The current outlook suggests diesel prices may be at the high point for the next 12 months. However, the oil market is very volatile and this forecast could change very quickly.

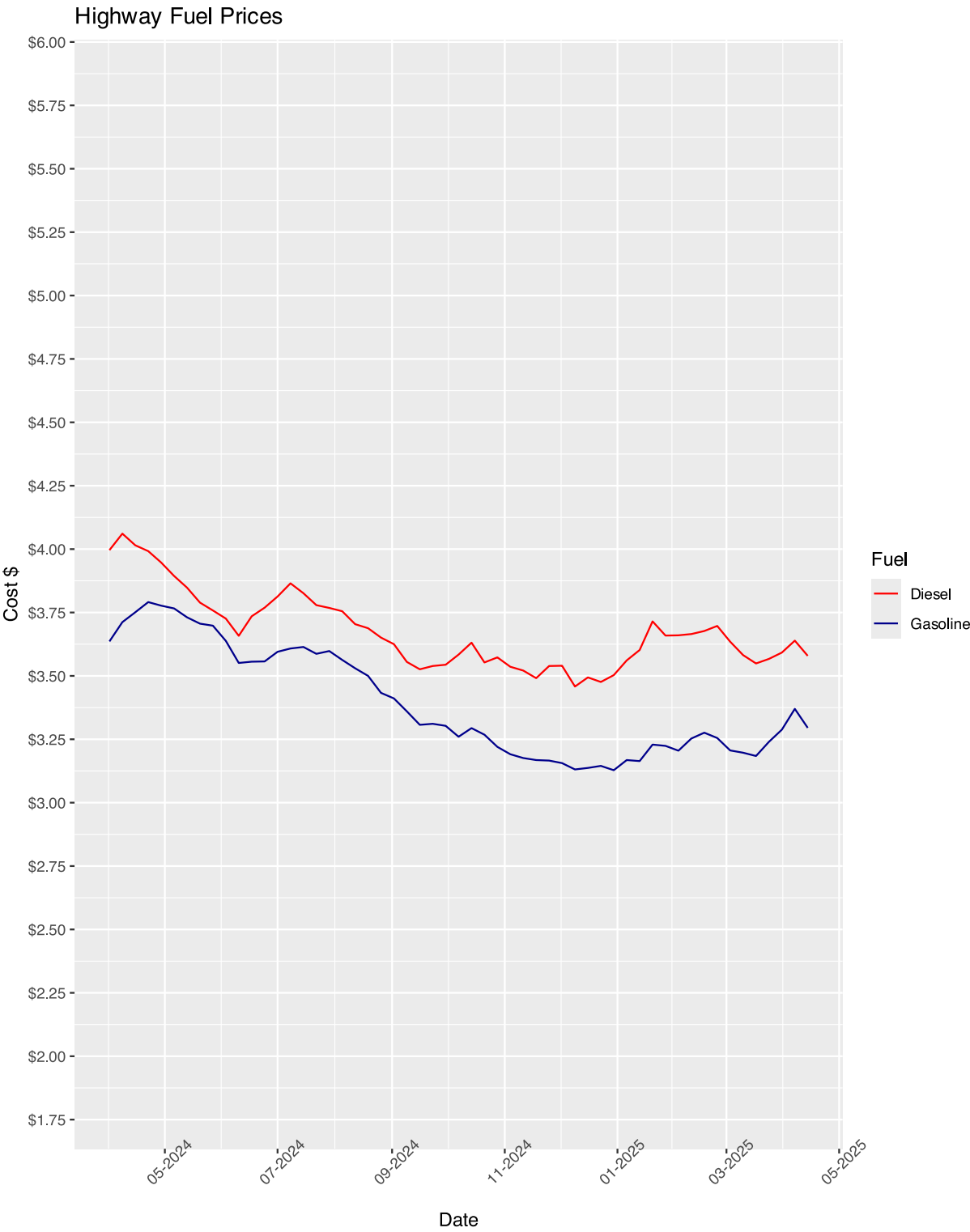


Figure 1. U.S. Highway Gasoline and Diesel Prices for the Past 12 Months

U.S. Highway Diesel Prices by Week for 2024 and 2025

Plus/minus one Std Dev of previous 5 years in gray

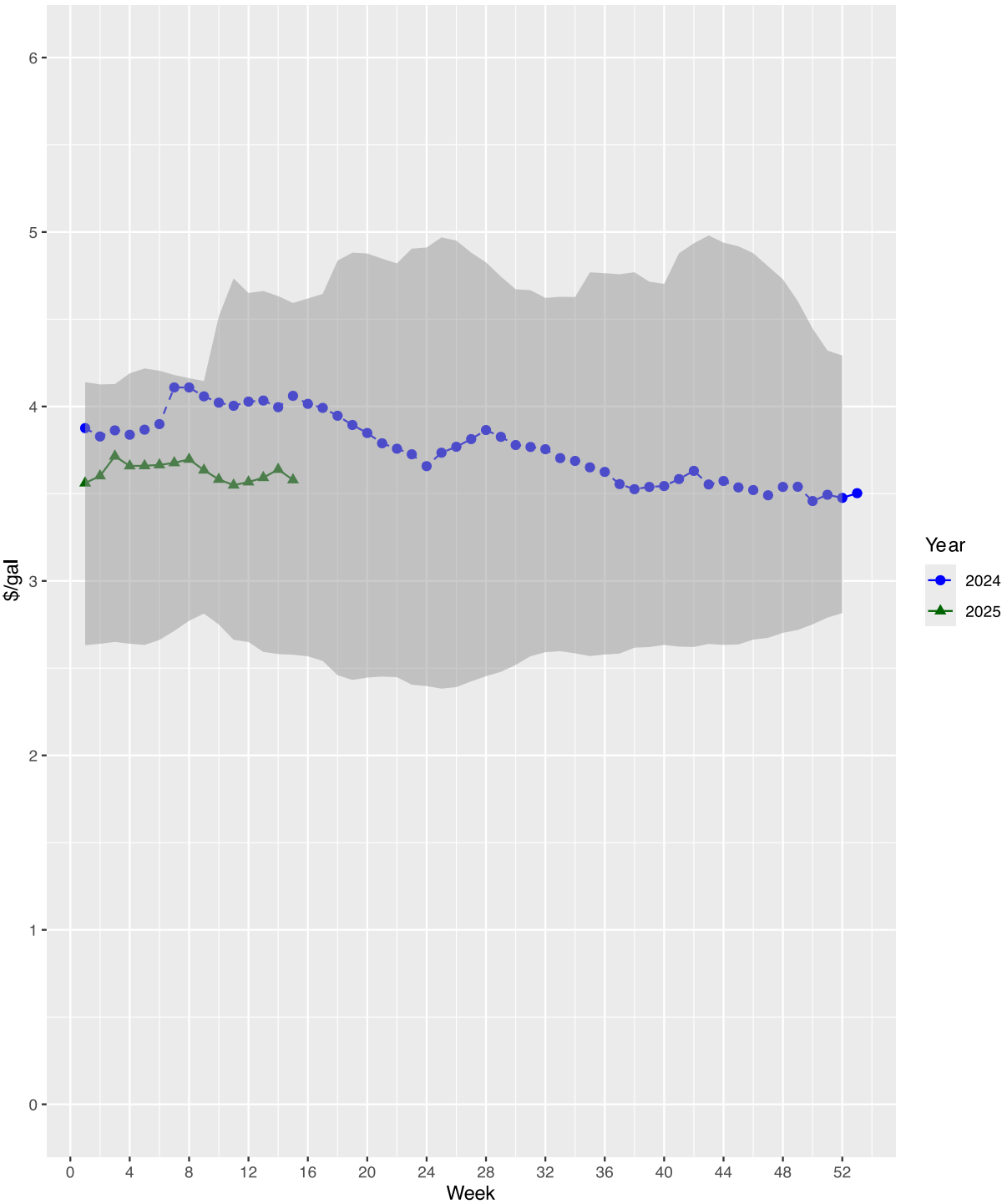


Figure 2. Diesel Prices Relative to the Last Five Years

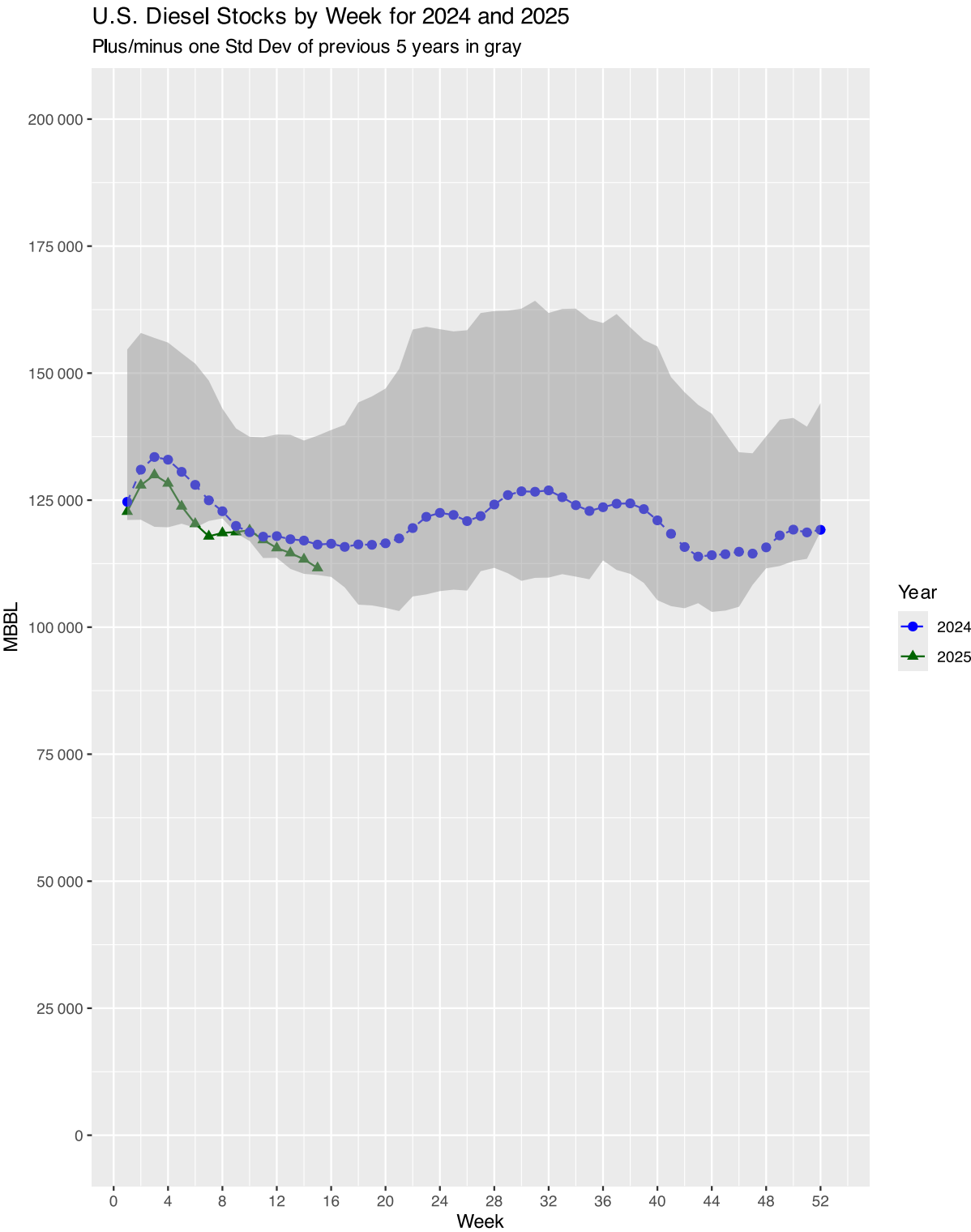


Figure 3. Diesel Stocks Relative to the Last Five Years

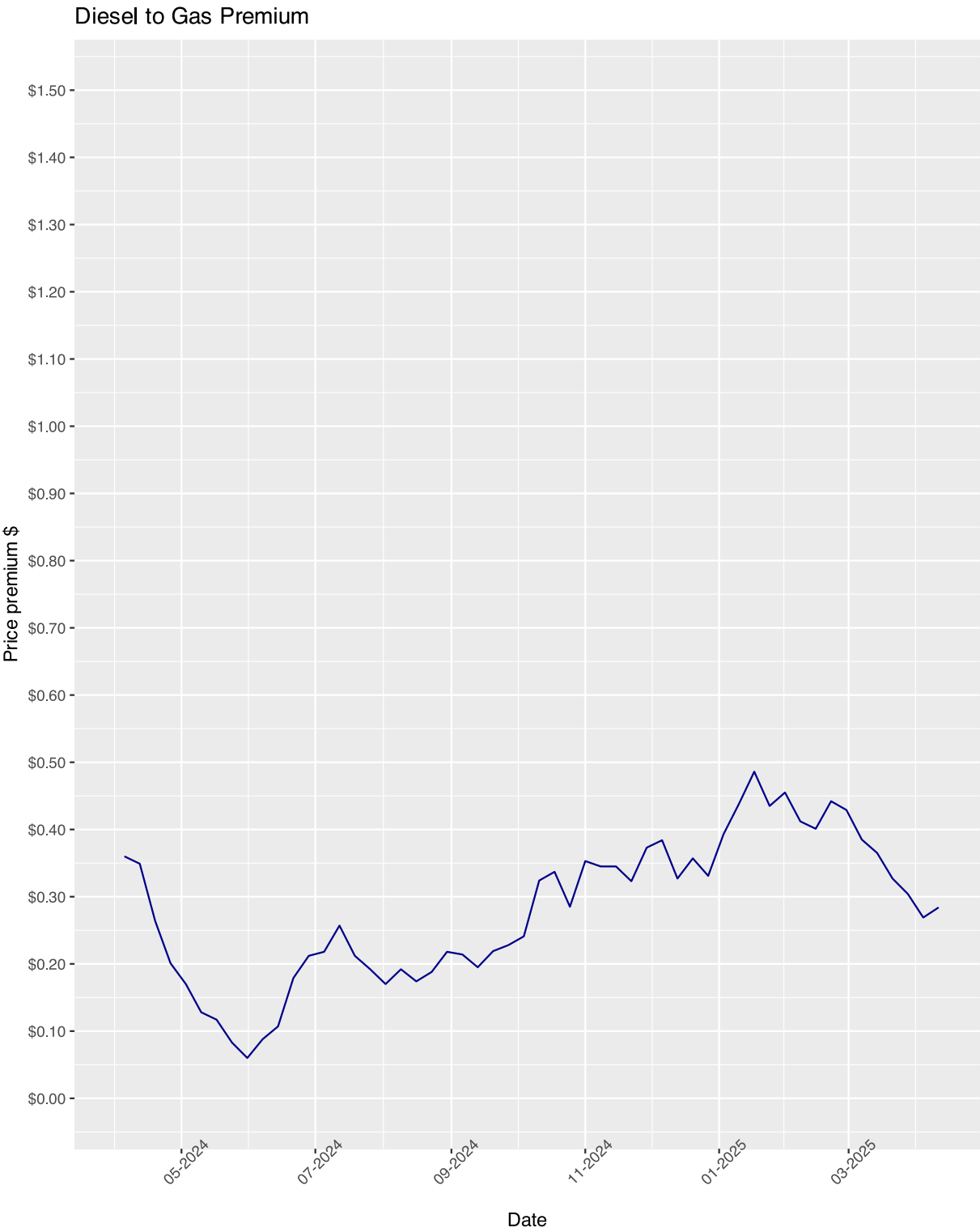


Figure 4. Diesel Premium to Gasoline

U.S. Diesel Price Premium by Week for 2024 and 2025
Plus/minus one Std Dev of previous 5 years in gray

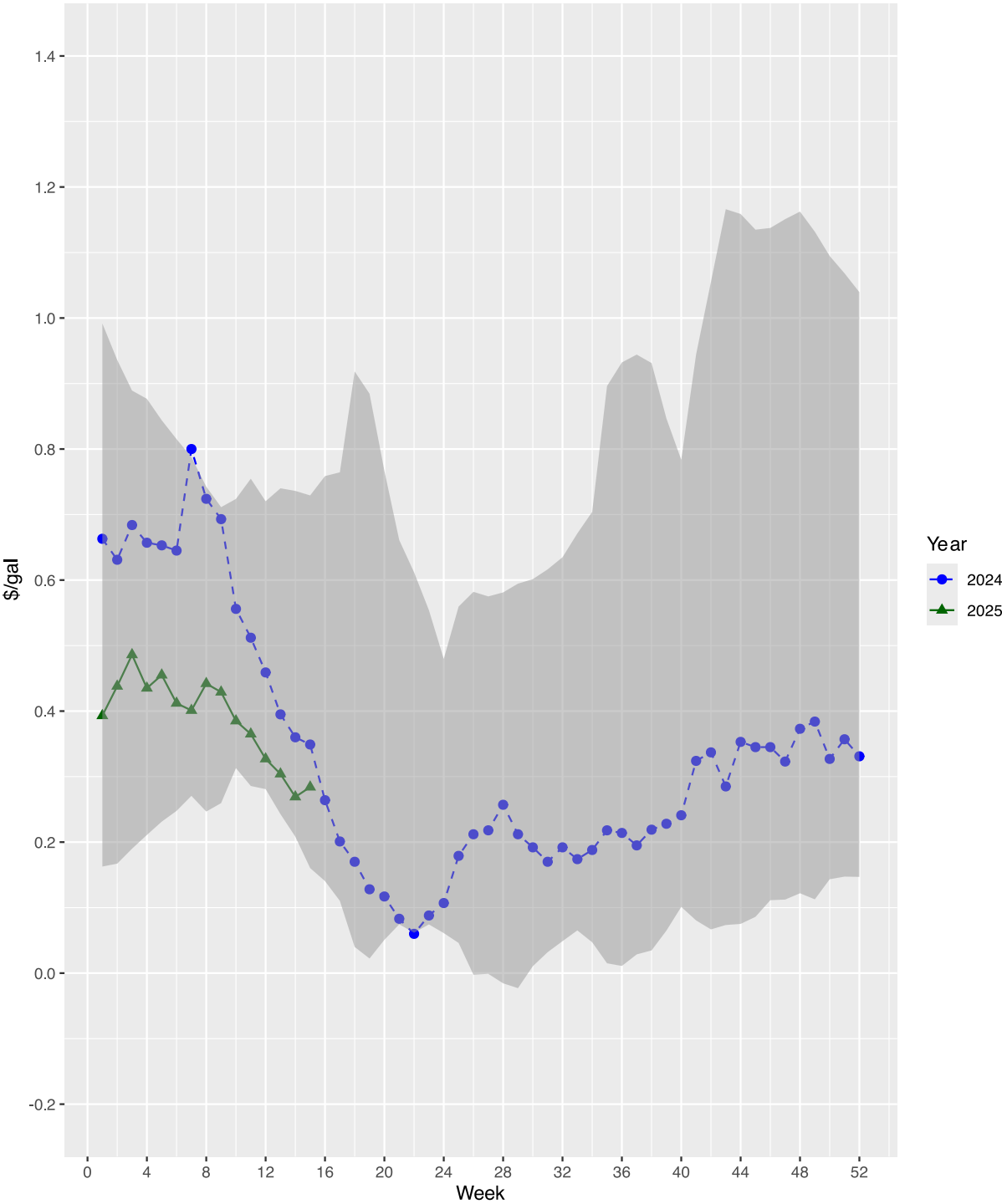


Figure 5. Diesel Price Premium Relative to the Last Five Years

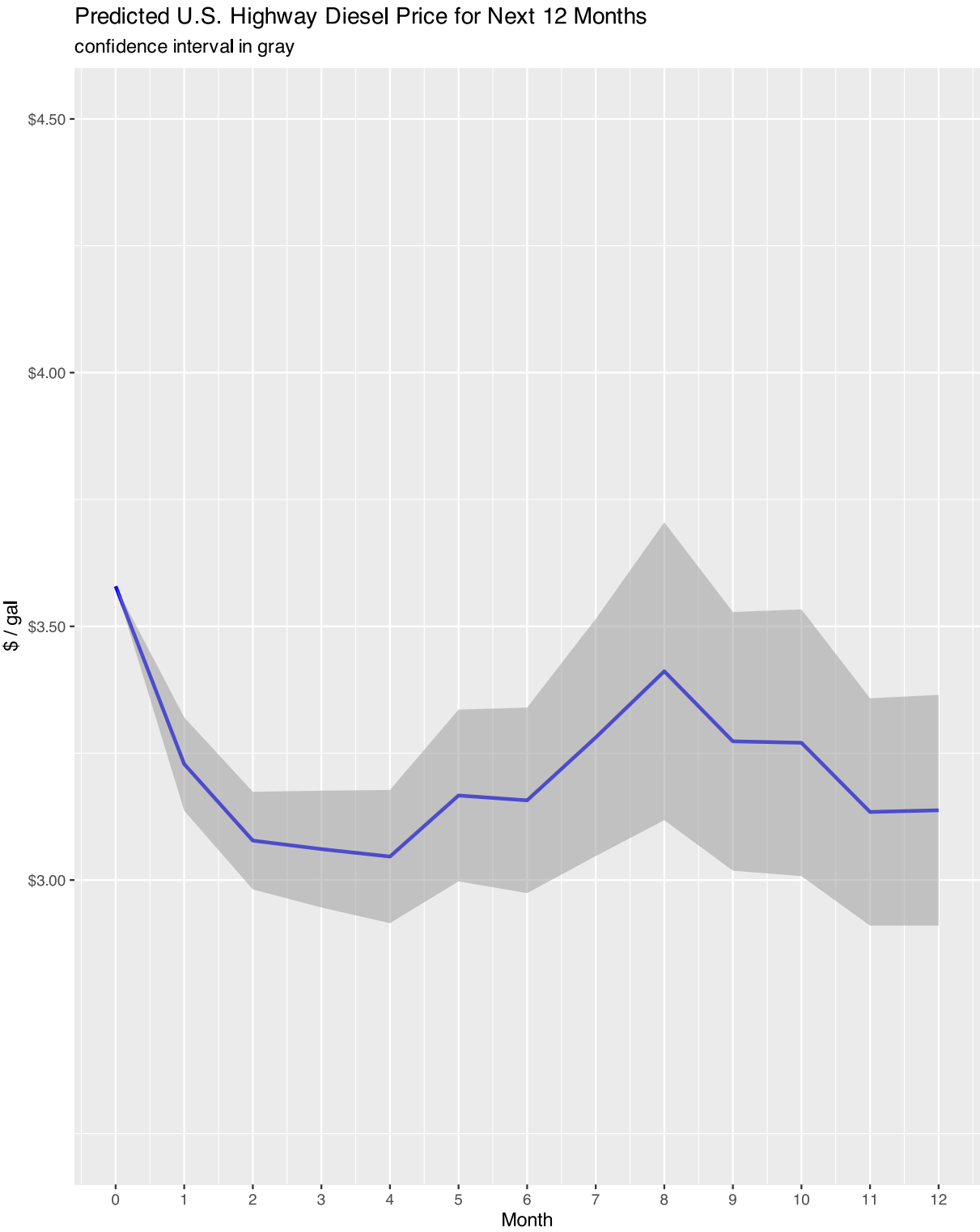


Figure 6. 12 Monthly Price Prediction for Diesel Fuel

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