Inflation genie is well and truly out of the bottle

E
nergy prices are notoriously volatile, but it really does look as if the $100 barrel of oil is with us to stay. Or at the very least until President Putin decides his malign work is done in Ukraine. And there are precious few signs of that coming soon.

This morning Brent Crude touched $120 (£95) for the first time since March, a benchmark that will trip red warning lights in the British economy's high command at the Treasury, the Bank of England and Downing Street.

That expensive fuel is now coursing through the arteries of British commerce, amplifying its effect via higher distribution, manfacturing and raw materials costs. There is no escape.

UK inflation is at a 40-year high and further unwelcome records look inevitable through the summer and autumn. That will in turn trigger further painful cost increases through prices linked to inflation such as, crucially for Londoners, bus and Tube fares.

It seems inconceivable that London commuters could be hit by RPI-linked fare increases of maybe 12% or 13% next year because of a geopolitical tragedy playing more than 1000 miles away on the other side of Europe. But that is the reality.

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Successive British governments have been remarkably successful at keeping the inflation genie tucked in its bottle since the mid-1990s – particularly since the Bank was granted its independence in 1997.

But that genie is now well and truly out, and with oil at $120 a barrel for the foreseeable future there are very few politically acceptable policy levers available to help put it back in.